MONTGOMERY COUNTY
MARYLAND

Comprehensive Annual Financial Report

Fiscal Year 2011

July 1, 2010 - June 30, 2011
Rockville, Maryland

MONTGOMERY COUNTY
MARYLAND

Comprehensive Annual Financial Report

17 76

Prepared by the
DEPARTMENT OF FINANCE

Joseph F. Beach, Director
101 Monroe Street
Rockville, Maryland 20850
240-777-8860

Fiscal Year 2011

July 1, 2010 - June 30, 2011

Montgomery County, Maryland
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2011
TABLE OF CONTENTS

Montgomery County, Maryland
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2011
TABLE OF CONTENTS

MONTGOMERY COUNTY
17 76
MARYLAND

FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
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Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., which represent 18% of the assets, 6% of the net assets and 8% of the revenues of the non-major component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the above mentioned component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information for the general, revenue stabilization, housing initiative and grants funds, and schedule of funding progress, as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section; combining and individual fund financial statements and supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and supplementary schedules, listed as supplementary data have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Baltimore, Maryland
March 29, 2012

Management's Discussion and Analysis

INTRODUCTION

This discussion and analysis (MD&A) is designed to a) assist readers in understanding Montgomery County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; b) assist the reader in focusing on significant financial issues; c) provide an overview of the County's current financial activity; d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent years' financial needs, based on currently known facts; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY11 by $1,206.3 million. That amount is net of a $1,342.7 million unrestricted deficit. The deficit occurs mainly because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to $1,359.4 million at June 30, 2011. Absent the effect of this relationship, the County would have reported government-wide unrestricted net assets of $16.7 million.

- The County's total government-wide net assets decreased by $16.1 million.

- As of the close of FY11, the County's governmental funds reported combined ending fund balances of $517.6 million, an increase of $111.5 million over the prior year's ending fund balances. Of the total ending fund balances, $52.8 million is available for spending at the County's discretion.

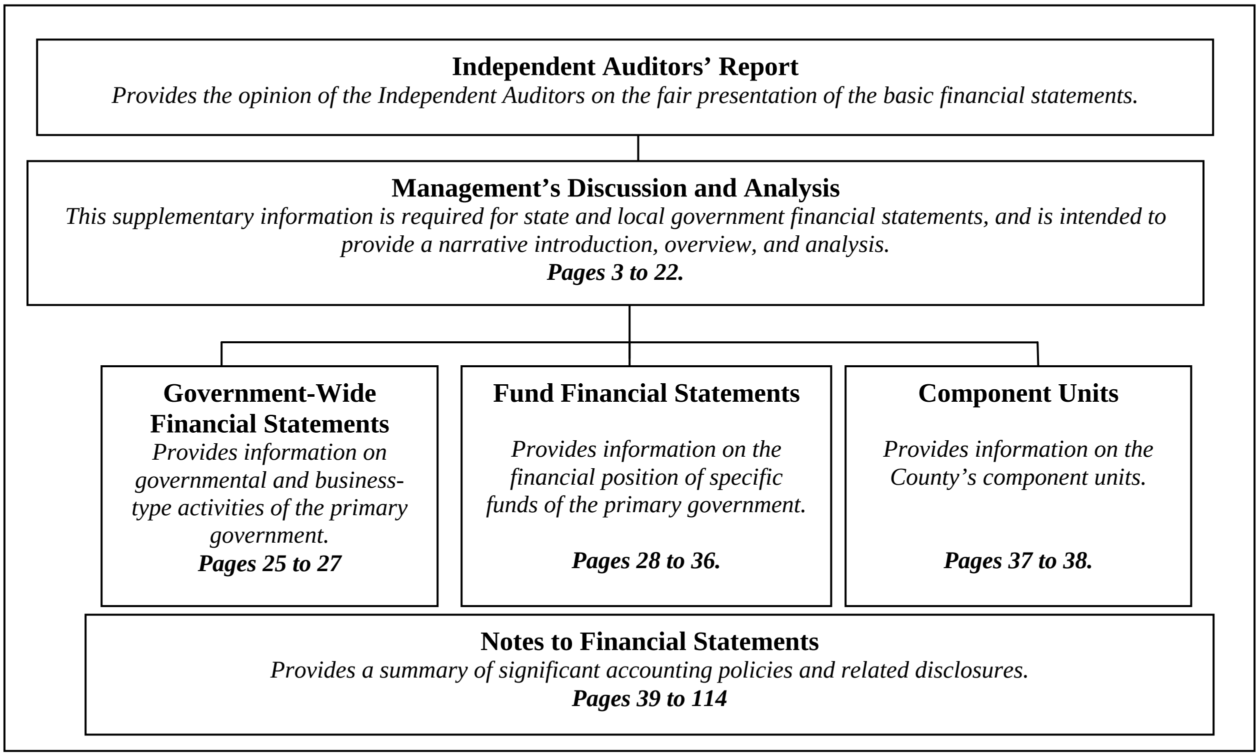
- At the end of FY11, unassigned fund balance for the General Fund was $69.0 million, or 2.9 percent of total General Fund expenditures.

- The County's government-wide long-term debt and obligations increased by $400.6 million during FY11. The key factors in this increase are:
    - The issuance of $325 million in general obligation (GO) bonds, used to refund $325 million in bond anticipation notes (BANS), and the issuance of an additional $400 million in BANS
    - Net increase in Other Postemployment Benefits obligation of $106.8 million
    - The retirement of $139 million in GO bond principal.
    - Revenue Bonds were issued in the amount of $29.4 million for Capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below. This MD&A is intended to be an introduction to Montgomery County's basic financial statements. Montgomery County's basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information



Independent Auditors' Report
Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis
This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview, and analysis.
Pages 3 to 22.

Government-Wide Financial Statements
Provides information on governmental and business-type activities of the primary government.
Pages 25 to 27

Fund Financial Statements
Provides information on the financial position of specific funds of the primary government.
Pages 28 to 36.

Component Units
Provides information on the County's component units.
Pages 37 to 38.

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 39 to 114

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County's governmental and business-type activities. This statement reports governmental funds' current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County, and infrastructure dedicated by developers since 1970, are included in the accompanying government-wide financial statements. The difference between the County's assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users' analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County's basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste activities, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has five component units – Montgomery County Public Schools (MCPS), Housing Opportunities Commission (HOC), Montgomery College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

Fund Financial Statements

Traditional users of governmental financial statements may find the fund financial statement presentation more familiar. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the fund financial statements, the focus is on major funds rather than the County as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The County has the following three types of funds:

<u>Governmental Funds</u> – Most of the County's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash and how they flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has six major governmental funds – General, Debt Service, Revenue Stabilization, Housing Initiative, Grants and Capital Projects – and 12 non-major special revenue funds.

<u>Proprietary Funds</u> – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County's enterprise funds. The County has three major enterprise funds – liquor control, solid waste activities, and parking lot districts – and two nonmajor funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.

<u>Fiduciary Funds</u> – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs. The County's fiduciary funds consist of pension and other employee benefit trusts, an investment trust, private purpose trusts, and agency funds.

FINANCIAL ANALYSIS OF MONTGOMERY COUNTY, MARYLAND: GOVERNMENT-WIDE FINANCIAL STATEMENTS

A comparative analysis of government-wide financial information is presented below.

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2011 and 2010:

Summary of Net Assets *

June 30, 2011 and 2010

	Governmental Activities		Business-type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Assets:						
Current and other assets	$ 1,314,180,976	$ 1,077,567,178	$ 132,074,401	$ 135,014,403	$ 1,446,255,377	$ 1,212,581,581
Capital assets, net	3,205,431,287	3,049,076,279	248,242,405	254,007,887	3,453,673,692	3,303,084,166
Total Assets	4,519,612,263	4,126,643,457	380,316,806	389,022,290	4,899,929,069	4,515,665,747
Liabilities:						
Long-term liabilities outstanding	3,123,642,736	2,721,895,955	100,892,218	102,083,874	3,224,534,954	2,823,979,829
Other liabilities	434,164,523	431,986,222	34,940,069	37,344,963	469,104,592	469,331,185
Total Liabilities	3,557,807,259	3,153,882,177	135,832,287	139,428,837	3,693,639,546	3,293,311,014
Net assets:						
Invested in capital assets, net of related debt	1,923,668,729	1,965,289,080	173,232,831	178,781,693	2,069,882,289	2,112,966,502
Restricted	426,265,013	380,181,540	52,817,393	54,684,729	479,082,406	434,866,269
Unrestricted (deficit)	(1,388,128,738)	(1,372,709,340)	18,434,295	16,127,031	(1,342,675,172)	(1,325,478,038)
Total Net Assets	$ 961,805,004	$ 972,761,280	$ 244,484,519	$ 249,593,453	$ 1,206,289,523	$ 1,222,354,733

*Primary Government

The County's current and other assets increased by $233.7 million or 19.3 percent from FY10. The County's assets exceeded its liabilities at the close of FY11 by $1,206.3 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Governmental capital lease obligations of $27.0 million, related to business-type activity capital assets, are classified as a component of unrestricted net assets for governmental activities purposes, but reclassified to invested in capital, net of related debt, for total primary government purposes.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to $1,359.4 million at June 30, 2011. Absent the effect of this relationship, the County would have reported government-wide unrestricted net assets of $16.7 million. An additional portion of the County's net assets ($479.1 million or 39.7 percent) represents resources that are subject to restrictions on how they may be used. This amount includes $94.5 million in net assets restricted for revenue stabilization for periods of economic downturn.

The County's total net assets decreased by $16.1 million for FY11 or 1.3 percent under FY10. This decline is due to an economic downturn that caused a net operating loss for the year of $16.1 million.

Statement of Activities

The following table summarizes the County's change in net assets for the years ended June 30, 2011 and 2010:

Summary of Changes in Net Assets *

For the Fiscal Years Ended June 30, 2011 and 2010

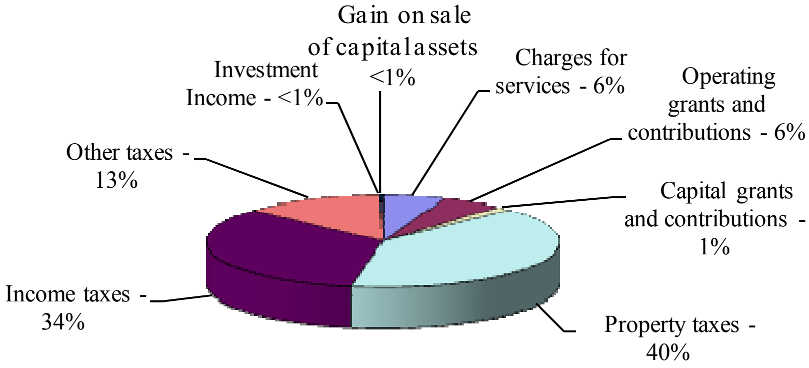
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenues:						
Charges for services	$ 192,205,555	$ 157,758,240	$ 420,146,285	$ 397,188,893	$ 612,351,840	$ 554,947,133
Operating grants and contributions	192,755,739	180,427,674	-	30,000	192,755,739	180,457,674
Capital grants and contributions	47,397,507	55,170,347	-	-	47,397,507	55,170,347
General revenues:					-	
Property taxes	1,358,968,819	1,371,964,491	9,273,198	9,931,045	1,368,242,017	1,381,895,536
Income taxes	1,151,260,721	1,010,874,757	-	-	1,151,260,721	1,010,874,757
Other taxes	435,384,988	328,977,765	-	-	435,384,988	328,977,765
Investment income	5,543,975	8,299,709	154,471	569,792	5,698,446	8,869,501
Gain on sale of capital assets	2,669,858	(1,366,889)	-	-	2,669,858	(1,366,889)
Total Revenues	3,386,187,162	3,112,106,094	429,573,954	407,719,730	3,815,761,116	3,519,825,824
EXPENSES						
Governmental Activities:						
General government	287,987,929	293,349,395	-	-	287,987,929	293,349,395
Public safety	614,081,563	611,714,420	-	-	614,081,563	611,714,420
Public works and transportation	255,731,300	297,864,026	-	-	255,731,300	297,864,026
Health and human services	283,727,427	287,883,637	-	-	283,727,427	287,883,637
Culture and recreation	88,433,456	108,490,460	-	-	88,433,456	108,490,460
Community development and housing	73,432,068	40,627,603	-	-	73,432,068	40,627,603
Environment	19,189,065	16,446,934	-	-	19,189,065	16,446,934
Education	1,728,747,256	1,738,633,028	-	-	1,728,747,256	1,738,633,028
Interest on long-term debt	99,272,929	86,352,825	-	-	99,272,929	86,352,825
Business-type Activities:						
Liquor control	-	-	215,359,402	204,677,766	215,359,402	204,677,766
Solid waste activities	-	-	100,890,192	100,709,914	100,890,192	100,709,914
Parking lot districts	-	-	30,755,951	30,698,606	30,755,951	30,698,606
Permitting services	-	-	25,490,571	27,306,059	25,490,571	27,306,059
Community use of public facilities	-	-	8,727,217	8,397,989	8,727,217	8,397,989
Total Expenses	3,450,602,993	3,481,362,328	381,223,333	371,790,334	3,831,826,326	3,853,152,662
Net Assets Before Transfers	(64,415,831)	(369,256,234)	48,350,621	35,929,396	(16,065,210)	(333,326,838)
Transfers	53,459,555	55,088,988	(53,459,555)	(55,088,988)	-	-
Change in Net Assets	(10,956,276)	(314,167,246)	(5,108,934)	(19,159,592)	(16,065,210)	(333,326,838)
Net Assets, beginning of year	972,761,280	1,286,928,526	249,593,453	268,753,045	1,222,354,733	1,555,681,571
Net Assets, end of year	$ 961,805,004	$ 972,761,280	$ 244,484,519	$ 249,593,453	$ 1,206,289,523	$ 1,222,354,733

*Primary Government

Governmental Activities

Revenues for the County's governmental activities were $3,386 million for FY11. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2011

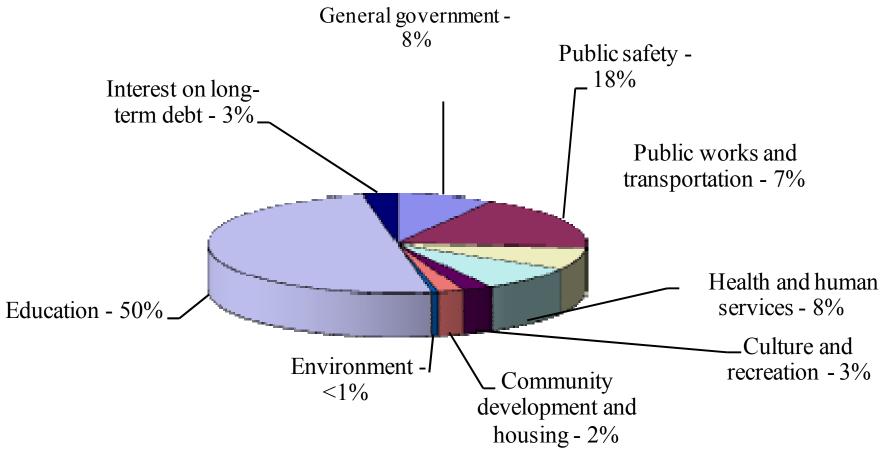


- Taxes constitute the largest source of County revenues, amounting to $2,945.6 million for FY11. Property and local income tax combined comprise 74.1 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 3.2 percent of the State taxable income for calendar years 2011 and 2010. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services ($104 million or 54 percent), public works and transportation ($29.2 million or 15.1 percent) and public safety ($37.5 million or 19.5 percent).

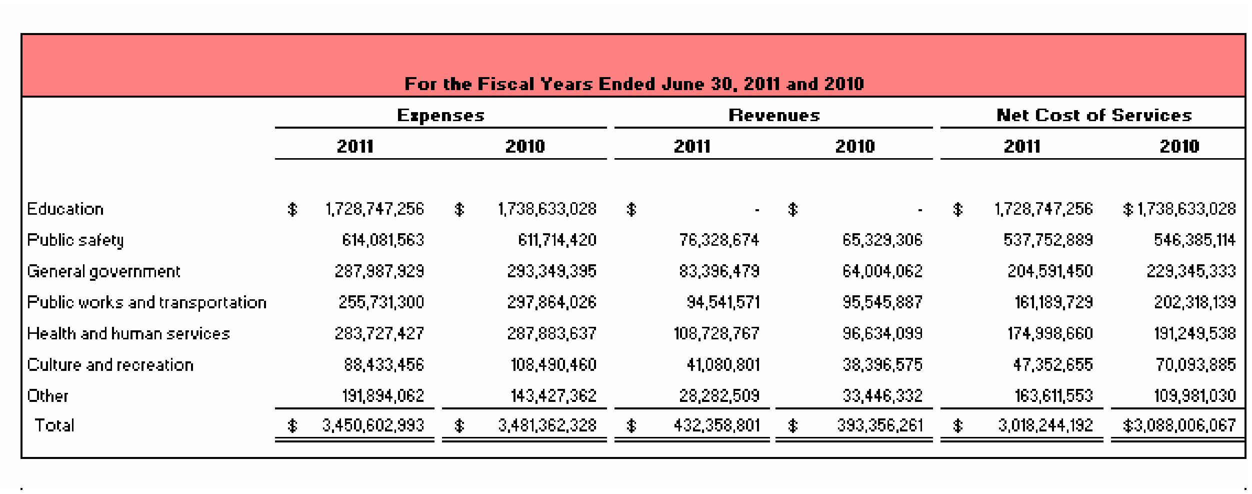
A more detailed discussion of the County's revenue results for FY11 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY11 was $3,450.6 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled $1.728.7 million. Public safety expenses totaled $614.1 million, general government services totaled $288 million, and Health and Human Services, the fourth largest expense for the County, totaled $283.7 million.

Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2011



The following table presents the cost and program revenues of the County as a whole and each of the County's six largest programs – education, public safety, general government, health and human services, public works and transportation, and culture and recreation – as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).



For the Fiscal Years Ended June 30, 2011 and 2010

	Expenses		Revenues		Net Cost of Services	
	2011	2010	2011	2010	2011	2010
Education	$ 1,728,747,256	$ 1,738,633,028	$ -	$ -	$ 1,728,747,256	$ 1,738,633,028
Public safety	614,081,563	611,714,420	76,328,674	65,329,306	537,752,889	546,385,114
General government	287,987,929	293,349,395	83,396,479	64,004,062	204,591,450	229,345,333
Public works and transportation	255,731,300	297,864,026	94,541,571	95,545,887	161,189,729	202,318,139
Health and human services	283,727,427	287,883,637	108,728,767	96,634,099	174,998,660	191,249,538
Culture and recreation	88,433,456	108,490,460	41,080,801	38,396,575	47,352,655	70,093,885
Other	191,894,062	143,427,362	28,282,509	33,446,332	163,611,553	109,981,030
Total	$ 3,450,602,993	$ 3,481,362,328	$ 432,358,801	$ 393,356,261	$ 3,018,244,192	$3,088,006,067

Of the total cost of governmental activities of $3,450.6 million, $432.4 million was paid by those who directly benefited from the programs ($192.2 million) and other governments and organizations that subsidized certain programs with operating and capital grants and contributions ($240.2 million). Of the $3,018.2 million net cost of services, our taxpayers paid for these activities through County taxes which totaled $2,945.6 million; also available to contribute towards such net costs were investment income and other contributions not restricted to a specific program.

Highlights of significant changes in governmental activities compared to last year are:

- Public Works and Transportation:
    - $36.8 million less in required costs for snow removal operations

- Culture and Recreation:
    - $11.8 million decrease in Library costs resulting from a reduction in materials purchases, staffing costs and service hours
    - $4.3 million decrease in Recreation staff, programs and service hours.

- Other:
    - Additional investment in housing programs to acquire and rehabilitate affordable housing stock.

Business-type Activities

Highlights of the County's business-type activities for FY11 are as follows:

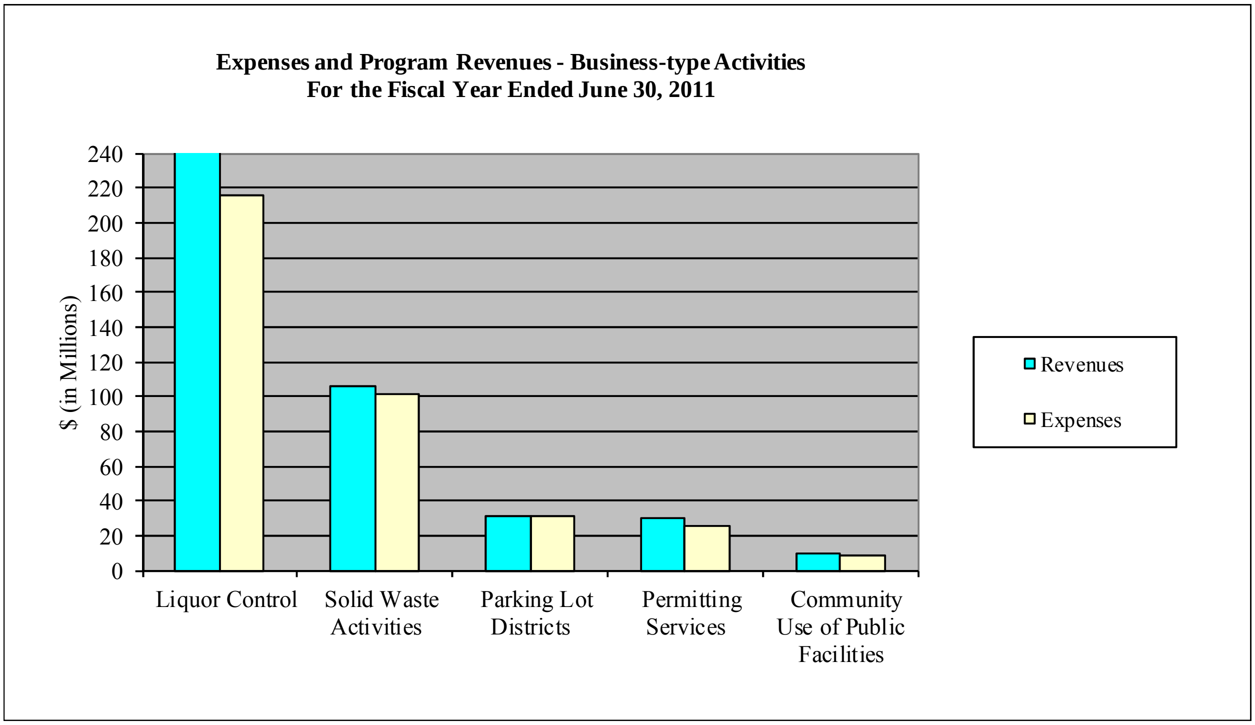
- Business-type activities experienced a decrease in net assets of $5.1 million for FY11. However, this amount is reported after total net transfers out of $53.5 million. The most significant components of this amount include:
    - $15.5 million in transfers of parking fees from the Parking Lot Districts to the Mass Transit, Urban Districts, and General Funds; and
    - $31.3 million in FY11 Liquor Enterprise Fund profits transferred to the General Fund. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.

- Charges for services to users comprise 97.8 percent of revenues, with $242.8 million (57.8 percent of charges for services revenue) attributable to liquor control operations and $106.3 million (25.3 percent) attributable to solid waste activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.

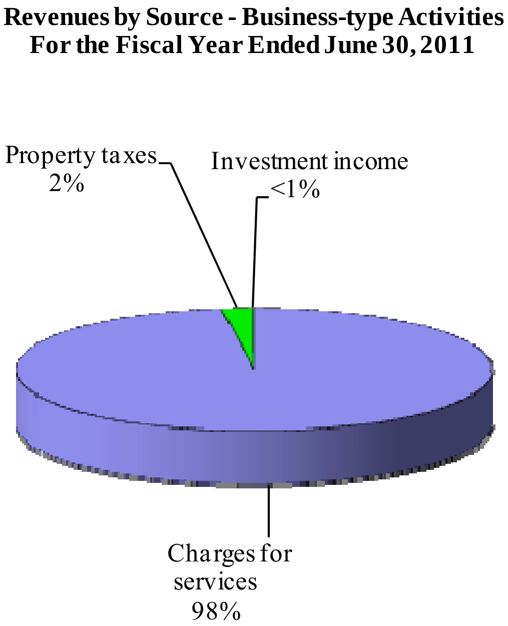
- Parking lot district property taxes of $9.3 million is the second largest source of revenue at only 2.1 percent of total revenues.

- Investment income of $0.2 million reflects a decrease of $.4 million or 72.9 percent under FY10, primarily because of the decrease in pooled cash and investments during the year.

Business-type activities are shown below comparing costs to revenues generated by related services:



Business-type revenues by source are comprised of the following:



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY11, the County's governmental funds reported combined ending fund balances of $517.6 million, an increase of $111.5 million from the end of FY10. Of the total ending fund balances, $52.8 million constitutes the unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of $464.8 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY11, the General Fund had $69 million of unassigned fund balance and total fund balance was $107.5 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 4.5 percent of total General Fund expenditures.

The fund balance of the County's General Fund increased by $60.2 million during FY11, primarily due to increased income tax revenues.

The Revenue Stabilization Fund (RSF) is used to account for the accumulation of resources during periods of economic growth and prosperity to provide greater budgetary flexibility in addressing future revenue shortfalls. Funds may be drawn upon during periods of economic slowdown when appropriations become unfunded. At the end of FY11, the RSF had a fund balance of $94.5 million. This includes an increase of $19.6 million -- a transfer from the General Fund -- and represents a 26.2% increase in ending fund balance over FY10.

The Housing Initiative Fund (HI) is used to account for the fiscal activity of financing, supplementing, and constructing affordable residential facilities for eligible participants. At the end of FY11, HI had a fund balance of $197 million, which is entirely restricted for legal reasons. The HI fund balance represents an decrease of $.2 million over FY10. Mortgage Receivables for this fund, which is a measure of its financing activities, increased $.2 million, or .1 percent, over FY10.

The Grant Fund is used to account for Federal and State grant-funded activities of the tax-supported General and special revenue funds. The Grants fund by design has no fund balance at the end of each fiscal year as revenues equal expenditures - that is, expenditures of this fund are either billable to one or more federal or state agencies or paid via a transfer from another County fund. The Grants fund received $118.2 million in revenues for FY11. This is a $5.9 million increase over FY10.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain an unassigned fund balance; the restricted fund balance of $3.3 million represents a debt service reserve account.

The Capital Projects Fund has a total fund balance of $95.7 million, an increase of $48.1 million from the end of FY10. The increase was primarily due new debt issued in FY11 to fund capital projects.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A. Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

Unrestricted net assets of the Liquor Fund at the end of FY11 amounted to $16.1 million, and operating income was $28.4 million. After a subsidy transfer to the General Fund of $31.3 million, the fund ended FY11 with a decrease in net assets of $5.2 million.

The Solid Waste Activities Fund total net assets amounted to $72.0 million, of which the unrestricted net assets were $762,398. Restricted net assets of $34.3 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund decrease in net assets amounted to $6.4 million in FY11, resulting in total ending net assets of $152.5 million. Of this amount, $134.8 million (88.4 percent) is invested in capital net of related debt; $8.3 million (5.4 percent) is restricted for debt service on revenue bonds; and $9.4 million (6.2 percent) is unrestricted.

A discussion of enterprise fund long-term debt can be found in the Long-Term Debt section presented later in this MD&A. Other factors concerning the finances of the enterprise funds are addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to $23.4 million, which included County Council approved supplemental and special appropriations and the year-end County Council transfer and County Executive supplemental appropriations. Major components of the appropriation increases include the following:

- $3.6 million increase in operating costs for the Department of General Services; and

- $19.8 million increase for the Department of Transportation largely due to snow removal operations and wind and rain storm clean up.

Actual revenues were less than budget amounts by $85.1 million, while actual expenditures and net transfers out were less than final budget by $11.6 million and $29.1 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2011, include the following:

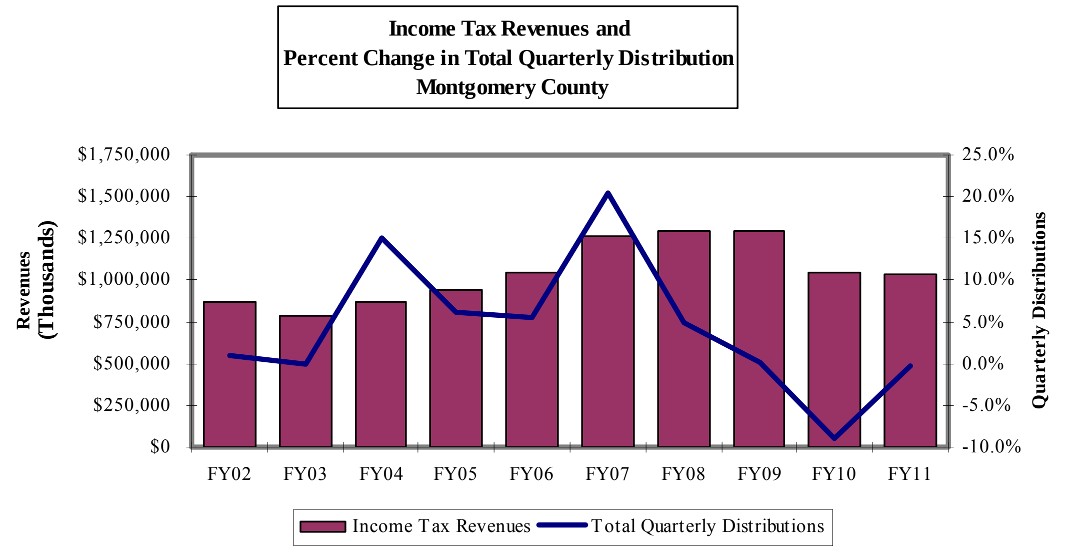
- Actual expenditures of $846.7 million were $11.6 million less than the final budget, which represents 1.4 percent of the final budget, and is attributable to savings achieved across numerous departments.

- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by $23.2 million. This is due both to the multi-year nature of capital projects, and to time delays that can be encountered for certain projects.

A more detailed comparison of final budget to actual figures for revenues is presented below:

Overview - Actual revenues for the General Fund totaled $2,642.6 million and were 3.1 percent below the budget estimate for the fiscal year but 4.8 percent above actual revenues for FY10. The three largest contributors to the variance in dollars between the budget estimate and actual revenues were the property tax (-$24.7 million), followed by the income tax (-$21.4 million below the budget estimate), and finally federal reimbursements (-$14.2 million below the budget). Revenues from consumption/excise taxes which include fuel/energy, telephone, hotel/motel, and admissions taxes, were $304.0 million in FY11. That amount was $9.2 million or 3.0 percent below the budget estimate although the decline was driven by a shortfall in only one revenue – fuel/energy taxes. Investment income was approximately $1.0 million below the budget estimate. Licenses and permits came in above budget estimates (10.4%), but charges for services came in below budget estimates (-12.9%). Intergovernmental revenues were 24.7 percent below the budget estimate. Such a decrease was attributed across the board to State, federal, and other reimbursements, which came in 5.4 percent, 37.9 percent, and 36.1 percent below budget estimates, respectively.

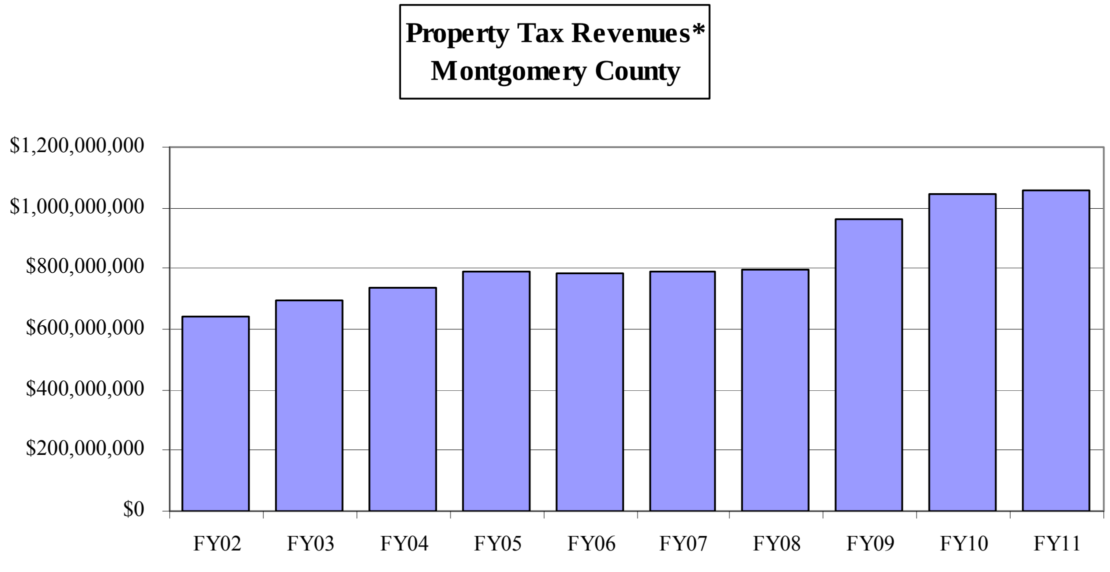
Income Taxes - One of the major, and until the past two fiscal years, the largest revenue source for the General Fund is the County income tax. Revenues from the income tax were $1,039.2 million and represented 41.0 percent of actual tax revenues in FY11 and 39.3 percent of total actual revenues. (Until FY10, income tax receipts were the largest source of tax revenues in the General Fund when it surpassed the property tax in size in FY09). The dramatic shift in the reliance on the income tax as a major source of revenue in recent years can be attributed to three factors: the expansion of the employment base in the County, the growth in capital gains, and significant property tax relief that reduced otherwise strong property tax revenue growth. With a Standard & Poor's 500 index increasing 12.8 percent in calendar year (CY) 2010 following an increase of 23.5 percent in CY2009, a decrease of 38.5 percent in CY2008 and increases of 3.5 percent in CY2007, 13.6 percent in CY2006, and 3.0 percent in CY2005, and an average annual growth rate of only 0.7 percent in the County's resident employment during the CY2005-CY2008 period and a decrease of 3.1 percent in CY2009 and a decrease of 0.7 percent in CY2010, income tax revenues increased 8.2 percent in FY05, 11.0 percent in FY06, 21.1 percent in FY07, 2.1 percent in FY08, no increase in FY09, and a 19.3 percent decline in FY10. However, with little change in total resident employment in CY2007 and CY2008, declines in CY2009 and CY2010, and modest growth in CY2011 coupled with the dramatic decline in the S&P 500 index in CY2008 affecting capital gains in FY10 and FY11, total income tax revenues declined 0.3 percent in FY11. As the chart below illustrates, total quarterly distributions for withholding and estimated payments decreased 0.3 percent in FY11, which followed decreases of 9.0 percent in FY10 and an increase of 0.2 percent in FY09 and 4.9 percent in FY08.



SOURCE: Montgomery County Department of Finance

<u>Property Taxes</u> - Property tax collections, which represent another major contributor of actual tax revenues to the General Fund and the largest in FY11, amounted to $1,061.6 million in FY11, which were $24.7 million (-2.3%) below the budget estimate but 1.5 percent above actual revenues in FY10. Actual property taxes, excluding penalties and interest and other items, were $1,059.4 million in FY11 – an increase of 1.5 percent of the previous fiscal year. Collections from penalties and interest and other items were $2.223 million – a 3.3 percent increase when compared to FY10. The increase in actual property tax collections for the General Fund compared to FY10 was attributed to actions by the County. One such action by the County included an increase in the General Fund tax rate from $0.683 to $0.699 per $100 of assessed value while maintaining total tax-supported revenues at the Charter Limit.

The taxable assessments for real property increased 0.4 percent from FY10 to FY11. This was the smallest increase in over twenty years. New construction, which added $919.9 million to the base in FY11, was 33.4 percent lower than in FY10. The real estate market, particularly the annual double-digit price increases during fiscal years (FY02-FY06), fueled the dramatic increase in the reassessment rate from 21.8 percent to 65.0 percent for Group Two reassessments of the County's real property with the three-year phase in starting in Levy Year (LY) 2005, that preceded an increase in the rate from 36.3 percent to 63.3 percent for Group Three reassessments in LY2006, but declined from 51.8 percent to 43.4 percent for Group One in LY2007 indicating a significant deceleration in the growth of average sales prices during FY07 (↑2.0%) and FY08 (↑0.4%). With the average sales price for an existing home declining 16.2 percent in FY09 and 5.4 percent in FY10, the reassessment rate for Group Two declined from 65.0 percent for LY2005 to 16.2 percent for LY2008 and the rate for Group Three declined from 63.3 percent for LY2006 to -10.6 percent for LY2009. With the dramatic decline in averages sales price in FY09 and FY10, the reassessment rates for Group 1 declined from 43.4 percent to -17.0 percent for LY2010 and from 16.2 percent to -14.5 percent for Group 2 for LY2011. However, the homestead tax credit limits annual increases in homeowners' taxable assessments to 10 percent per year although other taxable assessments such as commercial and investment residential properties are not limited by this credit. While there was a dramatic decrease in the reassessment rates for Groups One, Two and Three for the past three levy years, the remaining amount of the credit added over $5.1 billion to the assessable base in FY11.

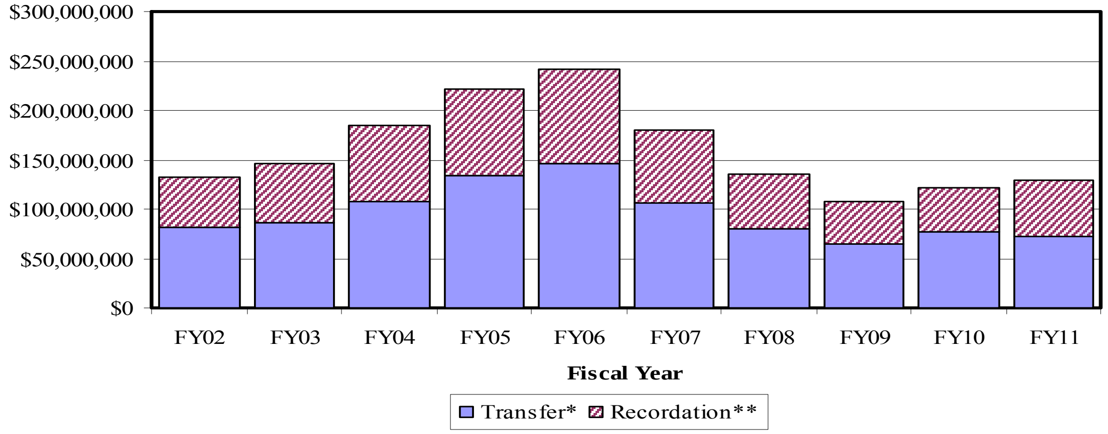


SOURCE: Montgomery County Department of Finance
* General Fund only

Assessments of personal property increased 3.0 percent in FY02, 0.6 percent in FY03, but declined 6.2 percent in FY04 primarily due to weaknesses in all three categories: individual, public utility, and corporate. Unfortunately, there was no rebound in the subsequent years as illustrated by a 1.5 percent decline in FY05, and another 1.8 percent decline in FY06. The declines in FY05 and FY06 were attributed to adjustments to individual personal property undertaken by the Maryland State Department of Assessments and Taxation (SDAT). Due to a rebound in personal property for public utilities, assessments increased 3.1 percent in FY07 and a modest 0.5 percent in FY08. However, because of declines in individual and corporate personal property and public utility tax assessments, total personal property assessments declined 1.3 percent in FY09 rebounding in FY10 (↑5.2%) attributed to increases in corporate and public utility assessments, but declined 6.5 percent in FY11 to $3.856 billion and attributed to declines in corporate and utility personal property. For the previous four fiscal years (FY07-FY10), taxable assessments for personal property averaged $3.990 billion ranging from a low of $3.920 billion in FY09 to a high of $4.124 billion in FY10.

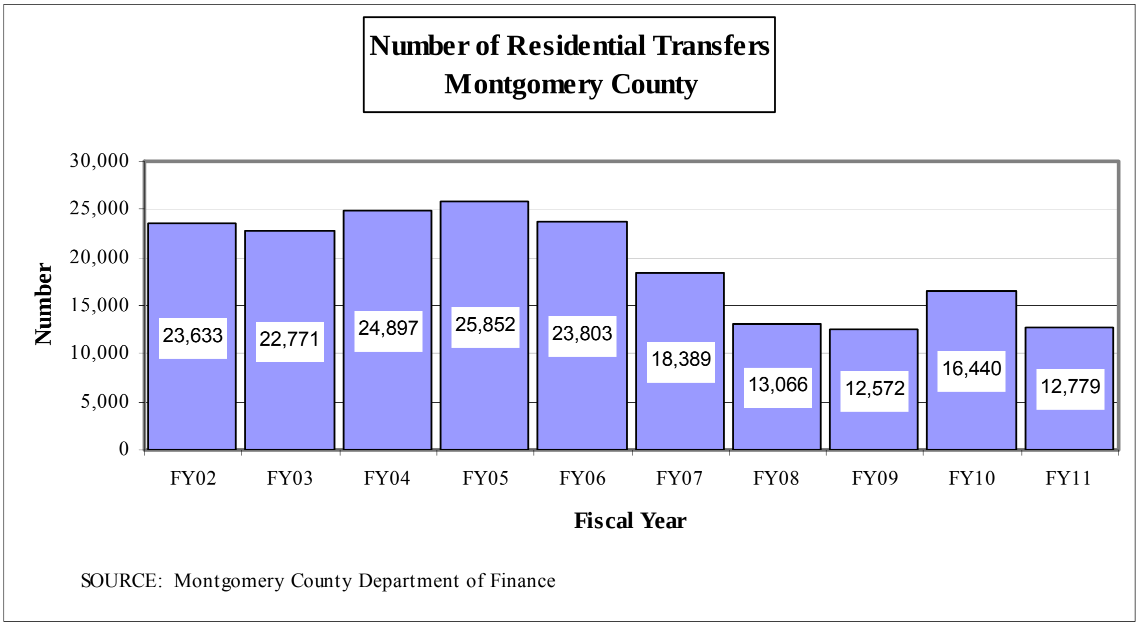
Transfer and Recordation Taxes - Another major tax revenue category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources in FY11 were $129.5 million (excluding recordation tax revenues earmarked for CIP funding of school construction and transfer tax revenues from condominium conversions). The FY11 increase in actual collections above FY10 from transfer and recordation taxes was the second increase during the past three fiscal years. Although actual revenues increased 6.1 percent in FY11, they were 7.4 percent below the budget estimate. As the accompanying chart illustrates, the total amount collected from these taxes increased from $132.1 million in FY02 to a peak of $241.7 million in FY06, before declining to $107.2 million in FY09. In FY10, taxes from the combined transfer and recordation taxes rebounded to $122.0 million and increased to $129.5 million in FY11.

Collections from the Transfer* and Recordation Taxes**
Montgomery County



SOURCE: Montgomery County Department of Finance
* Excludes condominium conversions
** Excludes School CIP

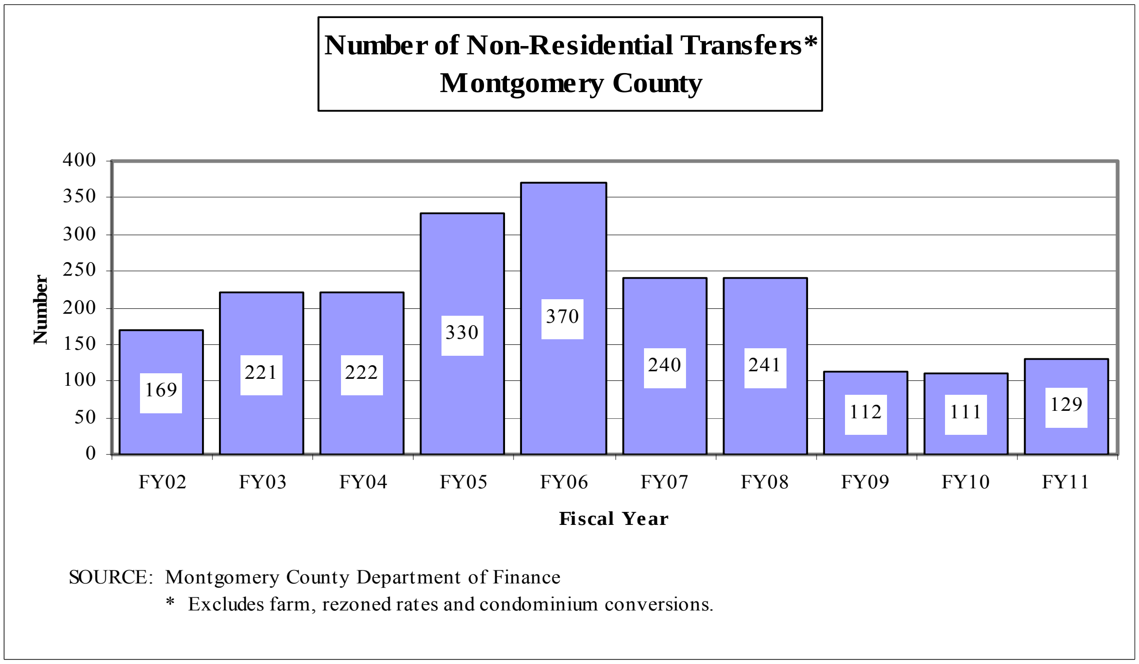
General Fund revenues from the transfer tax experienced a decrease of 6.9 percent in FY11 compared to a 28.7 percent increase from the recordation tax attributed to the transfer of recordation taxes collected from the tax rate premium and allocated to the General Fund. Because of the decline attributed to a dramatic decrease in home sales in FY11 (↓17.6%), revenues from the residential sector for both taxes were $80.1 million, a decrease of 16.0 percent from FY10. The number of residential transfers decreased to approximately 12,800 (↓22.3%).



Number of Residential Transfers Montgomery County

SOURCE: Montgomery County Department of Finance

Based on the amount of revenues, the commercial market improved in FY11 with revenues reaching $12.3 million – an increase of 45.9 percent over FY10. That amount of revenues was the highest since FY06. However, the number of commercial transfers (129) in FY11 remained relatively unchanged since FY09 and was the third lowest number in over twenty years.



Number of Non-Residential Transfers* Montgomery County

SOURCE: Montgomery County Department of Finance

* Excludes farm, rezoned rates and condominium conversions.

The remaining tax sources – consisting of fuel/energy, telephone, hotel/motel, and admissions and amusement taxes – totaled $304.0 million and were approximately $9.2 million, or 3.0 percent, below the budget estimate. Revenues from the telephone tax were 1.5 percent above the budget estimate and 65.1 percent above actual revenues in FY10. That increase was attributed to an increase from $2.00 to $3.50 per month in wireless communication units. Revenues from the hotel/motel industry of $19.3 million in FY11 were 11.2 percent above the budget estimate and 13.1 percent above actual revenues in FY10. The increase was attributed to the 2011 U.S. Open held in June. The admissions tax was 8.3 percent above the budget estimate and 16.0 percent above actual revenues for FY10. Actual fuel/energy tax revenues were up 48.8 percent compared to FY10 reflecting higher tax rates on fuel oil, electricity, and natural gas enacted by the County Council for FY11, but 4.9 percent below the budget estimate.

In the General Fund, investment income increased from a deficit of $144,976 in FY10 to $12,206 in FY11 but was significantly below the budget estimate of $1.0 million. The dramatic decrease in FY11 over the budget estimate was the result of a continued accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that reduced interest rates beginning in September 2007. From that time to December 2008, the FOMC decreased the target interest rate for federal funds from 5.25 percent to a range of between 0.00 and 0.25 percent ─ a decline of 500-525 basis points and remained at that historic low level throughout FY10. The justification for such a decrease was the significant global credit crisis that began in August 2007 and the subsequent economic recession that ended in June 2009. Because of this low level of interest rates during FY10 short-term or money market rates remained at historic low levels as well, hence the average yield on cash equity for the County decreased from 0.22 percent in FY10 to 0.10 percent in FY11. In addition, investments were sold before maturity to meet the need for cash. Because of that need, the County made fewer investments and total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was $303,000 or 74.8 percent below last fiscal year. With the decrease in investment income coupled with a lesser rate of increase in spending, the average daily portfolio balance decreased from $530.3 million in FY10 to $322.9.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2011, amounted to $3,454 million (net of accumulated depreciation and amortization), as summarized below:

Capital Assets, Net of Depreciation
June 30, 2011

	Governmental Activities	Business-type Activities	Total FY11	Total FY10
Land	$ 784,839,133	$ 60,170,076	$ 845,009,209	$ 815,645,583
Buildings	434,878,012	135,505,946	570,383,958	598,287,525
Improvements other than buildings	28,307,683	34,496,654	62,804,337	68,174,084
Furniture, fixtures, equipment and machinery	59,079,964	8,271,671	67,351,635	74,184,676
Leasehold improvements	7,458,674	-	7,458,674	8,269,419
Automobiles and trucks	120,972,007	1,099,300	122,071,307	140,504,231
Infrastructure	1,131,658,426	11,577	1,131,670,003	1,129,552,747
Other assets	5,004	-	5,004	13,955
Construction in progress	638,232,384	8,687,181	646,919,565	468,451,946
Total	$ 3,205,431,287	$ 248,242,405	$ 3,453,673,692	$ 3,303,084,166

*Certain amounts have been reclassified to conform with the current year presentation.

Changes in the County's capital assets for FY11 are summarized as follows:

Change in Capital Assets
For the Fiscal Year Ended June 30, 2011

	Governmental Activities	Business-type Activities	Total FY11	Total FY10
Beginning Balance	$ 3,049,076,279	$ 254,007,887	$ 3,303,084,166	$ 3,082,010,104
Additions*	240,370,674	9,366,227	249,736,901	335,095,810
Retirements, net*	771,115	42,936	814,051	3,283,309
Depreciation expense	83,244,551	15,088,773	98,333,324	110,738,439
Ending Balance	$ 3,205,431,287	$ 248,242,405	$ 3,453,673,692	$ 3,303,084,166

* Presented net of transfers from construction in progress;
retirements are also net of related accumulated depreciation.

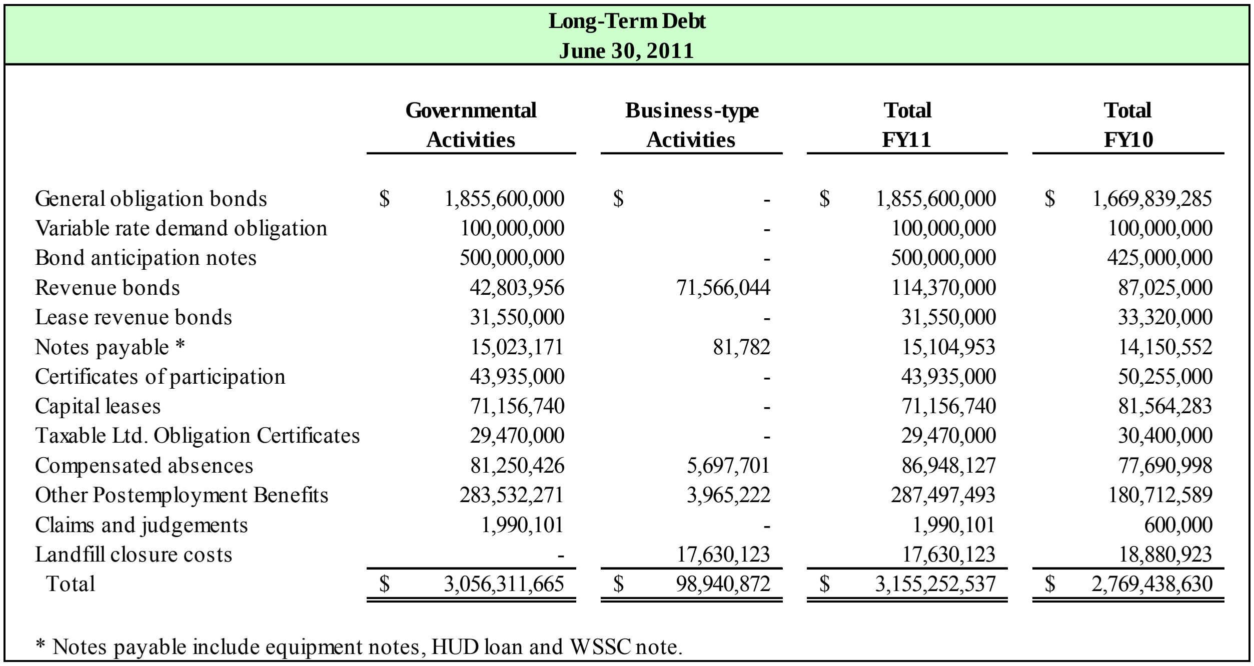
Major capital asset events during the current fiscal year included the following:

- $39.1 million was invested as part of the continuing Silver Spring revitalizing initiative.
- $20.8 million was invested in the Public Safety Modernization project which will provide phased upgrades and modernization of computer aided dispatch and voice radio systems used primarily by the County's public safety agencies.
- Roads, including underlying land, valued at $4.43 million were transferred to the County by various developers.
- In order to transform the way Montgomery County serves it residents and customers, the Tech Mod project provided for replacement, upgrade and implementation of major IT systems. In FY11, $19.9 million was spent for the project.
- Construction began in FY11 on the new Judicial Center Annex. This project is expected to be completed in FY15, will house 21 Circuit Court Judges. In FY11, $6.3 million was spent on this project.
- Due to an increase in traffic volume, congestion levels and the increase in the number of accidents, the Traffic Signal project spent $4.8 million in FY11.
- The White Oak Community Recreation Center will serve communities in the White Oak region of the County; this densely populated and ethnically diverse community does not have an existing community recreation facility. The project spent $7.3 million in FY11 and will serve 65,000 residents once completed.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements, Notes I-D5 and III-C.

Long-Term Debt:

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2011:



Long-Term Debt
June 30, 2011

	Governmental Activities	Business-type Activities	Total FY11	Total FY10
General obligation bonds	$ 1,855,600,000	$ -	$ 1,855,600,000	$ 1,669,839,285
Variable rate demand obligation	100,000,000	-	100,000,000	100,000,000
Bond anticipation notes	500,000,000	-	500,000,000	425,000,000
Revenue bonds	42,803,956	71,566,044	114,370,000	87,025,000
Lease revenue bonds	31,550,000	-	31,550,000	33,320,000
Notes payable *	15,023,171	81,782	15,104,953	14,150,552
Certificates of participation	43,935,000	-	43,935,000	50,255,000
Capital leases	71,156,740	-	71,156,740	81,564,283
Taxable Ltd. Obligation Certificates	29,470,000	-	29,470,000	30,400,000
Compensated absences	81,250,426	5,697,701	86,948,127	77,690,998
Other Postemployment Benefits	283,532,271	3,965,222	287,497,493	180,712,589
Claims and judgements	1,990,101	-	1,990,101	600,000
Landfill closure costs	-	17,630,123	17,630,123	18,880,923
Total	$ 3,056,311,665	$ 98,940,872	$ 3,155,252,537	$ 2,769,438,630

* Notes payable include equipment notes, HUD loan and WSSC note.

At June 30, 2011, the County had outstanding general obligation (GO) bonds of $1,855.6 million, with outstanding variable rate demand obligations (VRDOs) of $100 million and bond anticipation notes (BANs) of $500 million. Over the last ten years, the County issued its GO bonds once a year, with the exception of FY08, when no GO "new money" bonds were issued. The County adopted a policy in 1988 of initially financing capital construction with BANs, which are subsequently paid off by the issuance of the County's GO bonds. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY02, the County sold general obligation bond issues, exclusive of refundings, of up to $325 million. Over the last ten fiscal years, the County's annual issues (including the June 2006 issue of $100 million of VRDOs) averaged $199 million.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a 'Triple AAA' rated County, and received ratings of Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch Ratings. County GO bonds have been consistently awarded the highest credit rating from Moody's and Standard and Poor's since 1973 and 1976, respectively, and from Fitch since 1991.

As of June 30, 2011, Montgomery County is one of only 14 'Triple AAA' rated counties in the nation with a population greater than 900,000. In July 2011, the County received its annual credit ratings. Fitch cited Key Rating Drivers of a considerable and formidable economic base, anchored by the extensive presence of the U.S. government and expanding broadly into biotechnology, showing excellent prospects for continued expansion. Fitch also concluded that strong wealth and unemployment indicators underscore the County's economic strengths. Moody's stated that their rating and outlook reflected the County's diverse and substantial economy, sizable tax base, affluent demographics and manageable debt burden. Standard and Poor's rating reflected their opinion of the County's very strong income levels, strong employment base and historically stable and diverse property tax base.

The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

On August 4, 2011, Moody's announced that in conjunction with its assignment of a negative outlook to the rating of the U.S. government, Moody's had revised the outlooks for indirectly linked U.S. public finance issuers including the County to negative. On December 7, 2011, after conducting a review process with each of the 166 indirectly linked issuers, Moody maintained the negative outlook for Montgomery County and certain other issuers including Maryland. Montgomery County is continuing to work with Moody's to resolve this issue.

Continuing Disclosure **-** For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Through the end of FY11, the County satisfied its disclosure requirements via electronic disclosure filings to the Electronic Municipal Market Access (EMMA) system. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 4, 8, 9, 11, 17-21.

Significant bond-related debt activities during FY11 were:

- General Obligation Bonds – The County's annual issue of $325 million in July 2010 was allocated between a $195 million new money tax-exempt issue, a $106.3 million taxable Build America Bond (BABs) issue and a $23.7 million taxable Recovery Zone Economic Development Bond issue. The Federal government subsidizes interest payable on the taxable BAB and Recovery Zone Economic Development bonds. The proceeds of G.O. bonds, BABs and premium from these bond issues was used to pay off an equivalent amount of the County's BANs which funded capital expenditures for transportation, education, and other County facilities

- Liquor Control Revenue Bonds- In April 2011 the County issued $34.4 million of revenue bonds secured by Department of Liquor Control revenues. The proceeds will be used to renovate a warehouse facility for the department as well as finance transportation projects in the County.

- Bond Anticipation Notes (BANs) – Over the course of FY11, the County issued $400 million in BANs and retired $325 million with the General Obligation Bond issue.

- Variable Rate Demand Obligations - In May 2011, the County replaced the liquidity provider, Dexia Credit Local, with Wells Fargo Bank.

- Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements, Notes I-D7, III-E3, and III-F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY12 budget with updates based on revised economic data subsequent to the approval of the County's budget:

- The County's economic projections in the FY12 budget assume a mixed economic performance in FY12 with the County continuing to experience elevated unemployment rates that are higher than historic levels, i.e., pre-calendar year 2009 rates, and a modest increase (↑1.3% in calendar year 2011) in total payroll employment.

- On a calendar year basis, total payroll employment increased 0.6 percent in CY10, the latest year for which complete annual data are available. That rate followed a 2.6 percent decline in CY09 and an average annual increase of slightly more than 0.3 percent between CY00 and CY08. Following a modest increase in payroll employment during CY10, the County anticipates further increases in payroll employment of 1.3 percent per year for CY11 and CY12.

- On a calendar year basis, employment in Montgomery County, based on the labor force series, as opposed to payroll employment, is expected to increase 1.5 percent in CY11 and 1.1 percent in CY12. The rate of growth in resident employment is estimated to remain reasonably steady with an average annual rate of 1.8 percent between CY12 and CY17. That estimate is above the projected growth in County population of 0.7 percent per year through CY17.

- The employment projection in the FY12 budget assumes that personal income will increase 3.3 percent in CY11 and 5.1 percent in CY12 and per capita income will increase 2.4 percent in CY11 and 4.3 percent in CY12. Those rates are a significant improvement over the 0.6 percent decrease in CY09 in total personal income and a 2.4 percent decrease in per capita income, the latest date for which annual data are available. Those decreases in FY09 are below the seven-year average annual growth rates of 5.4 percent and 4.5 percent experienced by total personal income and per capita income, respectively, between CY02-CY08.

- The estimated increase in employment and a modest increase of 3.3 percent in personal income in CY11 are offset by the elevated unemployment rate thereby reflecting a mixed performance in the County's economy.

- The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System is expected to maintain the targeted federal funds rate within the target range of 0.00-0.25 percent until 2013. Because of that policy by the FOMC, the County's budget projections include only a modest increase in the yield on its investments from 0.10 percent in FY11 to 0.40 percent in FY12.

- Inflation, as measured by the Consumer Price Index, is expected to increase 2.4 percent in FY12.

OTHER SIGNIFICANT MATTERS

The Maryland General Assembly 2009 Session passed House Bill 101 "Budget Reconciliation and Financing Act of 2009". A key provision of this bill requires the State Comptroller to distribute $366,778,631 from the local reserve account to the State's general fund by June 30, 2009. From fiscal 2013 through 2022, the State Comptroller is required to distribute $36,677,863 annually in income tax revenues to the local reserve account; and reduce the total amount of income tax revenues distributed to local jurisdictions by a corresponding amount. The effect on the County may be a decrease in income tax revenues in the aforementioned years. The impact of this bill will not result in changes for local governments until FY13.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery County Government, Department of Finance, 101 Monroe Street, Rockville, Maryland, 20850. This report can also be found on the County's website, http://www.montgomerycountymd.gov (see Departments, Finance, Financial Reports).

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY

17 76

MARYLAND

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2011
Exhibit A-1

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Equity in pooled cash and investments	$ 448,662,188	$ 47,261,834	$ 495,924,022	$ 71,857,522
Cash with fiscal agents	41,279,813	7,219,950	48,499,763	41,292,380
Cash	395,570	155,818	551,388	12,768,651
Investments - cash equivalents	-	-	-	148,051,758
Investments	-	-	-	35,850,927
Receivables (net of allowance for uncollectibles)				
Income Taxes	347,852,913	-	347,852,913	-
Property Taxes	19,349,150	614,407	19,963,557	-
Capital leases	31,550,000	-	31,550,000	24,400,121
Accounts	75,358,080	5,189,209	80,547,289	22,261,957
Notes	1,161,411	-	1,161,411	45,720,000
Parking violations	757,016	1,897,538	2,654,554	-
Mortgage receivable	180,130,609	-	180,130,609	375,499,211
Interest	-	-	-	6,447,532
Other	39,729	-	39,729	4,908,750
Internal balances	3,133,115	(3,133,115)	-	-
Due from primary government	-	-	-	78,059,061
Due from component units	85,782,949	140,521	85,923,470	-
Due from other governments	54,738,087	138,508	54,876,595	31,627,718
Inventory of supplies	12,139,707	28,236,159	40,375,866	9,923,841
Prepaids	759,911	402,255	1,162,166	4,772,877
Deferred charges	11,090,728	855,261	11,945,989	425,771
Other assets	-	464,268	464,268	108,682,891
Restricted Assets:				
Equity in pooled cash and investments	-	36,596,074	36,596,074	6,900,795
Cash with fiscal agents	-	-	-	20,882,272
Cash	-	-	-	641,585
Investments - cash equivalents	-	-	-	78,171,552
Investments	-	6,035,714	6,035,714	183,989,321
Capital Assets:				
Nondepreciable assets	1,423,071,517	68,857,257	1,491,928,774	399,878,640
Depreciable assets, net	1,782,359,770	179,385,148	1,961,744,918	2,576,288,141
Total Assets	4,519,612,263	380,316,806	4,899,929,069	4,289,303,274
LIABILITIES				
Accounts payable	65,349,532	16,983,834	82,333,366	72,031,272
Interest payable	24,364,848	324,783	24,689,631	28,474,707
Retainage payable	13,535,242	272,878	13,808,120	7,733,738
Accrued liabilities	92,348,891	4,025,314	96,374,205	91,214,217
Claims payable	109,555,407	-	109,555,407	17,309,242
Deposits	163,798	9,012,441	9,176,239	10,269,114
Due to primary government	-	-	-	87,176,318
Due to component units	77,371,698	687,362	78,059,060	-
Due to other governments	8,581,740	886,310	9,468,050	63,232
Unearned revenue	42,893,367	2,333,784	45,227,151	46,069,133
Other liabilities	-	413,363	413,363	19,290,598
Noncurrent Liabilities:				
Due within one year	743,947,335	12,376,004	756,323,339	134,654,701
Due in more than one year	2,379,695,401	88,516,214	2,468,211,615	1,408,207,964
Total Liabilities	3,557,807,259	135,832,287	3,693,639,546	1,922,494,236
NET ASSETS				
Invested in capital assets, net of related debt	1,923,668,729	173,232,831	2,069,882,289	2,452,085,300
Restricted for:				
Capital projects	95,674,420	-	95,674,420	153,888
General government	106,266,233	-	106,266,233	-
Public safety	3,681,702	-	3,681,702	-
Public works and transportation	7,050,607	52,817,393	59,868,000	-
Recreation	3,906,553	-	3,906,553	-
Community development and housing	201,426,187	-	201,426,187	-
Environment	4,916,202	-	4,916,202	-
Debt service	3,343,109	-	3,343,109	53,134,321
Other purposes	-	-	-	41,396,016
Unrestricted (deficit)	(1,388,128,738)	18,434,295	(1,342,675,172)	(179,960,487)
Total Net Assets	$ 961,805,004	$ 244,484,519	$ 1,206,289,523	$ 2,366,809,038

Notes to Financial Statements are an integral part of this statement

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-2

		Program Revenues		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Government Activities				
General government	$ 287,987,929	$ 72,444,386	$ 5,849,908	$ 5,102,185
Public safety	614,081,563	38,595,219	37,520,540	212,915
Public works and transportation	255,731,300	26,974,805	29,181,943	38,384,823
Health and human services	283,727,427	4,721,205	104,007,562	-
Culture and recreation	88,433,456	32,590,653	5,366,409	3,123,739
Community development and housing	73,432,068	5,019,056	10,261,792	79,902
Environment	19,189,065	11,860,231	567,585	493,943
Education	1,728,747,256	-	-	-
Interest on long term debt	99,272,929	-	-	-
Total Governmental Activities	3,450,602,993	192,205,555	192,755,739	47,397,507
Business-type Activities				
Liquor control	215,359,402	242,802,606	-	-
Solid waste disposal and collection	100,890,192	106,304,522	-	-
Parking lot districts	30,755,951	30,647,758	-	-
Permitting services	25,490,571	30,537,026	-	-
Community use of public facilities	8,727,217	9,854,373	-	-
Total Business-type Activities	381,223,333	420,146,285	-	-
Total Primary Government	$ 3,831,826,326	$ 612,351,840	$ 192,755,739	$ 47,397,507
Component Units:				
General government (BUPI)	$ 4,379,007	$ 4,188,105	$ 211,003	$ -
Culture and recreation (MCRA)	18,217,219	16,540,875	-	2,988,841
Community development and housing (HOC)	222,128,938	108,168,343	105,800,194	5,941,033
Eduation:				
Elementary and secondary education (MCPS)	2,446,298,246	30,805,697	141,432,227	54,955,236
Higher education (MCC)	278,827,886	77,112,136	40,932,761	628,185
Total Component Units	$ 2,969,851,296	$ 236,815,156	$ 288,376,185	$ 64,513,295

General Revenues:
Property taxes
County income taxes
Real property transfer taxes
Recordation taxes
Fuel energy taxes
Hotel-motel taxes
Telephone taxes
Other taxes
Grants and contibutions not restricted to specific programs
Investment income
Gain on sale of capital assets
Transfers
Total General Revenues and Transfers
Change in net Assets
Net Assets - Beginning
Net Assets - Ending

Notes to Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (204,591,450)	$ -	$ (204,591,450)	$ -
(537,752,889)	-	(537,752,889)	-
(161,189,729)	-	(161,189,729)	-
(174,998,660)	-	(174,998,660)	-
(47,352,655)	-	(47,352,655)	-
(58,071,318)	-	(58,071,318)	-
(6,267,306)	-	(6,267,306)	-
(1,728,747,256)	-	(1,728,747,256)	-
(99,272,929)	-	(99,272,929)	-
(3,018,244,192)	-	(3,018,244,192)	-
-	27,443,204	27,443,204	-
-	5,414,330	5,414,330	-
-	(108,193)	(108,193)	-
-	5,046,455	5,046,455	-
-	1,127,156	1,127,156	-
-	38,922,952	38,922,952	-
(3,018,244,192)	38,922,952	(2,979,321,240)	-
-	-	-	20,101
-	-	-	1,312,497
-	-	-	(2,219,368)
-	-	-	(2,219,105,086)
-	-	-	(160,154,804)
-	-	-	(2,380,146,660)
1,358,968,819	9,273,198	1,368,242,017	-
1,151,260,721	-	1,151,260,721	-
71,809,475	-	71,809,475	-
57,725,334	-	57,725,334	-
233,408,845	-	233,408,845	-
19,295,158	-	19,295,158	-
49,087,889	-	49,087,889	-
4,058,287	-	4,058,287	-
-	-	-	2,445,251,342
5,543,975	154,471	5,698,446	8,389,316
2,669,858	-	2,669,858	236,130
53,459,555	(53,459,555)	-	-
3,007,287,916	(44,031,886)	2,963,256,030	2,453,876,788
(10,956,276)	(5,108,934)	(16,065,210)	73,730,128
972,761,280	249,593,453	1,222,354,733	2,293,078,910
$ 961,805,004	$ 244,484,519	$ 1,206,289,523	$ 2,366,809,038

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011
Exhibit A-3

	General	**Revenue Stabilization**	**Housing Initiative**	**Grants**	**Debt Service**	**Capital Projects**	**Other Governmental Funds**	**Total Governmental Funds**
ASSETS								
Equity in pooled cash and investments	$ 5,536,591	$ 94,537,588	$ 8,197,072	$ 64,906	$ 764,869	$ 165,340,054	$ 35,645,154	$ 310,086,234
Cash with fiscal agents	2,132,618	-	-	-	3,343,109	35,804,086	-	41,279,813
Cash	150,020	-	212,450	-	-	-	32,800	395,270
Receivables (net of allowances for uncollectibles):								
Income taxes	347,852,913	-	-	-	-	-	-	347,852,913
Property taxes	15,259,381	-	-	-	-	-	4,089,769	19,349,150
Capital leases	-	-	-	-	31,550,000	-	-	31,550,000
Accounts	68,638,466	-	-	-	-	344,977	5,425,750	74,409,193
Notes	-	-	-	-	-	12,068	1,149,343	1,161,411
Parking violations	445,387	-	-	-	-	-	311,629	757,016
Mortgages receivable	150,571	-	147,367,612	28,720,648	-	300,000	3,591,778	180,130,609
Other	-	-	-	39,654	-	75	-	39,729
Due from other funds	105,966,097	-	-	1,645,123	-	-	-	107,611,220
Due from component units	512,025	-	44,341,900	9,965,086	-	29,814,912	-	84,633,923
Due from other governments	5,161,412	-	-	29,749,502	-	17,280,139	1,635,843	53,826,896
Inventory of supplies	3,842,213	-	-	-	-	4,349,690	-	8,191,903
Prepaids	339,269	-	-	355	-	2,500	177,320	519,444
Total Assets	$ 555,986,963	$ 94,537,588	$ 200,119,034	$ 70,185,274	$ 35,657,978	$ 253,248,501	$ 52,059,386	$ 1,261,794,724
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 13,757,423	$ -	$ 267,500	$ 6,933,996	$ 764,869	$ 32,302,647	$ 2,595,926	$ 56,622,361
Retainage payable	2,578	-	-	-	-	13,499,925	32,739	13,535,242
Accrued liabilities	50,381,906	-	81,349	4,537,986	-	3,461,812	14,703,458	73,166,511
Deposits	-	-	-	-	-	-	163,798	163,798
Due to other funds	13,893,058	-	20,403	16,875,152	-	83,318,419	9,822,450	123,929,482
Due to component units	67,613,154	-	808,331	2,100,766	-	6,844,977	4,470	77,371,698
Due to other governments	1,757,583	-	300	975,840	-	5,211,918	635,582	8,581,223
Deferred revenue	301,069,340	-	1,977,130	38,761,534	31,550,000	12,934,383	4,543,066	390,835,453
Total Liabilities	448,475,042	-	3,155,013	70,185,274	32,314,869	157,574,081	32,501,489	744,205,768
Fund Balances:								
Nonspendable	4,181,482	-	189,732,382	-	-	17,795,235	4,783,676	216,492,775
Restricted	-	94,537,588	6,965,096	-	3,343,109	-	11,997,912	116,843,705
Committed	23,275,746	-	266,543	-	-	77,879,185	18,964,291	120,385,765
Assigned	11,022,956	-	-	-	-	-	-	11,022,956
Unassigned	69,031,737	-	-	-	-	-	(16,187,982)	52,843,755
Total Fund Balances	107,511,921	94,537,588	196,964,021	-	3,343,109	95,674,420	19,557,897	517,588,956
Total Liabilities and Fund Balances	$ 555,986,963	$ 94,537,588	$ 200,119,034	$ 70,185,274	$ 35,657,978	$ 253,248,501	$ 52,059,386	$ 1,261,794,724

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Exhibit A-4

Total fund balance - governmental funds (see Exhibit A-3)		$ 517,588,956
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets uses in governmental fund activities are not financial resources and therefore not reported in the funds:		
Nondepreciable capital assets:		
Land	$ 784,816,627	
Construction in progress	637,541,082	
Depreciable capital assets:		
Buildings	758,238,424	
Improvements other than buildings	48,719,574	
Furniture, fixtures, equipment and machinery	250,993,660	
Automobiles and trucks	170,706,421	
Infrastructure	1,677,492,480	
Other capital assets	2,079,731	
Total capital assets	4,330,587,999	
Less accumulated depreciation	(1,150,940,785)	3,179,647,214
Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds payable	(1,855,600,000)	
Variable rate demand obligations	(100,000,000)	
Bond anticipation notes payable	(500,000,000)	
Lease revenue bonds payable	(31,550,000)	
Accrued interest payable	(24,364,090)	
Capital leases payable	(71,156,740)	
Taxable Limited Obligation	(29,470,000)	
Certificates of participation	(43,935,000)	
Notes payable	(15,101,063)	
Revenue bonds	(42,803,956)	
Other postemployment benefits	(282,391,058)	
Claims and judgements	(1,990,101)	
Compensated absences	(78,734,983)	(3,077,096,991)
Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:		
Unamortized premiums	(89,186,739)	
Deferred amount on refunding	21,855,668	
Deferred issuance costs	11,090,728	(56,240,343)
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:		
Assets:		
Current and non current assets	154,697,511	
Capital assets	78,355,832	
Less accumulated depreciation	(52,571,758)	
Liabilities	(132,232,616)	
Cumulative loss for certain activities of internal service funds that is reported with business-type activities	1,410,314	49,659,283
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes	278,953,602	
Property taxes	17,364,048	
Intergovernmental revenue	13,553,404	
Other revenue	38,375,831	348,246,885
Net assets of governmental activities (See Exhibit A-1)		$ 961,805,004

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-5

	General	**Revenue Stabilization**	**Housing Initiative**	**Grants**	**Debt Service**	**Capital Projects**	**Other Governmental Funds**	**Total Governmental Funds**
REVENUES								
Taxes	$ 2,534,356,327	$ -	$ 1,160,533	$ -	$ -	$ 41,286,326	$ 266,103,966	$ 2,842,907,152
Licenses and permits	10,372,598	-	-	-	-	-	2,474,050	12,846,648
Intergovernmental	51,645,248	-	-	117,025,807	5,102,186	33,559,158	25,845,320	233,177,719
Charges for services	26,716,455	-	-	125,599	-	-	68,485,974	95,328,028
Fines and forfeitures	19,249,187	-	-	-	-	-	2,845,861	22,095,048
Investment income	39,925	21,955	822,547	288,946	1,184,635	8,076	135,291	2,501,375
Miscellaneous	16,790,058	-	8,591,573	770,297	3,292,009	2,360,193	3,893,765	35,697,895
Total Revenues	2,659,169,798	21,955	10,574,653	118,210,649	9,578,830	77,213,753	369,784,227	3,244,553,865
EXPENDITURES								
Current:								
General government	237,437,305	-	-	3,857,995	-	-	8,912,730	250,208,030
Public safety	332,783,573	-	-	21,037,667	-	-	186,855,330	540,676,570
Public works and transportation	62,554,343	-	-	4,585,917	-	-	105,462,189	172,602,449
Health and human services	182,149,005	-	-	77,691,839	-	-	-	259,840,844
Culture and recreation	34,123,996	-	-	207,878	-	-	35,136,130	69,468,004
Community development and housing	10,132,691	-	35,682,104	10,529,384	-	-	-	56,344,179
Environment	2,652,665	-	-	1,062,698	-	-	10,042,662	13,758,025
Education	1,525,074,457	-	-	-	-	-	-	1,525,074,457
Debt Service:								
Principal retirement	-	-	-	-	142,318,320	-	-	142,318,320
Interest	-	-	-	-	90,118,001	-	-	90,118,001
Leases and other obligations	-	-	-	-	28,650,471	-	-	28,650,471
Issuing costs	-	-	-	-	4,407,985	-	-	4,407,985
Capital projects	-	-	-	-	-	496,309,888	-	496,309,888
Total Expenditures	2,386,908,035	-	35,682,104	118,973,378	265,494,777	496,309,888	346,409,041	3,649,777,223
Excess (Deficiency) of Revenues over (under) Expenditures	272,261,763	21,955	(25,107,451)	(762,729)	(255,915,947)	(419,096,135)	23,375,186	(405,223,358)
OTHER FINANCING SOURCES (USES)								
Transfers in	63,257,854	19,640,592	25,906,015	1,395,123	252,792,151	26,822,267	18,091,172	407,905,174
Transfers (out)	(275,367,677)	-	(2,777,202)	(632,394)	-	(15,430,595)	(57,675,291)	(351,883,159)
Sale of property	-	-	1,703,045	-	-	1,421,447	-	3,124,492
Financing under notes and leases payable	97,525	-	-	-	-	-	-	97,525
Debt Issued:								
General obligation bonds	-	-	-	-	301,320,000	-	-	301,320,000
Premium on original issue LT debt	-	-	-	-	26,659,385	16,128	-	26,675,513
Premium Revenue Bonds	-	-	-	-	143,349	1,289,015	-	1,432,364
Bond anticipation notes	-	-	-	-	(325,000,000)	400,000,000	-	75,000,000
Lease revenue bonds	-	-	-	-	-	29,360,000	-	29,360,000
Recovery zone bonds	-	-	-	-	-	23,680,000	-	23,680,000
Total Other Financing Sources (Uses)	(212,012,298)	19,640,592	24,831,858	762,729	255,914,885	467,158,262	(39,584,119)	516,711,909
Net Change in Fund Balances	60,249,465	19,662,547	(275,593)	-	(1,062)	48,062,127	(16,208,933)	111,488,551
Fund Balances - Beginning of Year	47,262,456	74,875,041	197,239,614	-	3,344,171	47,612,293	35,766,830	406,100,405
Fund Balances - End of Year	$ 107,511,921	$ 94,537,588	$ 196,964,021	$ -	$ 3,343,109	$ 95,674,420	$ 19,557,897	$ 517,588,956

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-6

Net change in fund balances - total governmental funds (see Exhibit A-5)		$ 111,488,551
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays are expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated lives and reported are depreciation expense:		
Capital outlay	$ 233,665,804	
Depreciation expense	(76,215,146)	157,450,658
In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.	(591,151)	(591,151)
Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources.	5,256,701	5,256,701
Some revernues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) this year, as follows:		
Income taxes	112,025,871	
Property taxes	(9,436,941)	
Intergovernmental revenues	275,028	
Other revenues	(345,309)	102,518,649
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmenal funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and simmilar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Debt issued or incurred:		
General obligation bonds	(351,675,513)	
Bond anticipation notes	(400,000,000)	
Taxable Limited Obligation Certificates	(30,792,364)	
Notes payable	-	
Capital lease financing	(25,000)	
Lease revenue bonds	(3,919,247)	
Certificates of participation	-	
Less issuance costs	4,407,985	
Principal repayments:	-	
General obligation bonds	139,239,285	
Bond anticipation notes	325,000,000	
Leases payable	1,813,000	
Capital leases	11,362,543	
Certificates of participation	6,320,000	
Notes payable	3,230,386	(295,038,925)
Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therfore, are not reported as expenditures in governmental funds:		
Accrued interest payable	591,335	
Compensated absences	(8,677,006)	
Other postemployment benefits	(105,678,862)	
Amortization	12,809,325	(100,955,208)
The current year gain for certain activities of internal service funds is reported with governmental activities.		8,914,449
Change in net assets of governmental activities (see Exhibit A-2)		$ (10,956,276)

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011
Exhibit A-7

	Business-Type Activities - Enterprise Funds					
	Liquor	**Solid Waste Activities**	**Parking Lot Districts**	**Other Enterprise Funds**	**Totals**	**Governmental Activities- Internal Service Funds**
ASSETS						
Current Assets:						
Equity in pooled cash and investments	$ 1,710,713	$ 22,878,691	$ 8,476,253	$ 14,196,177	$ 47,261,834	$ 138,575,954
Cash with fiscal agents	7,219,950	-	-	-	7,219,950	-
Cash	34,625	3,000	118,193	-	155,818	300
Receivables (net of allowances for uncollectibles):						
Property taxes	-	-	614,407	-	614,407	-
Accounts	2,227,865	2,863,001	6,397	91,946	5,189,209	948,886
Parking violations	-	-	1,897,538	-	1,897,538	-
Due from other funds	-	-	-	-	-	8,923,884
Due from component units	-	52,971	87,550	-	140,521	1,149,026
Due from other governments	-	138,508	-	-	138,508	911,191
Inventory of supplies	28,236,159	-	-	-	28,236,159	3,947,804
Prepaids	265,424	927	135,904	-	402,255	240,466
Other assets	464,268	-	-	-	464,268	-
Total Current Assets	40,159,004	25,937,098	11,336,242	14,288,123	91,720,467	154,697,511
Noncurrent Assets:						
Restricted Assets:						
Equity in pooled cash and equivalents	-	29,941,835	6,654,239	-	36,596,074	-
Investments	-	4,382,960	1,652,754	-	6,035,714	-
Restricted Assets	-	34,324,795	8,306,993	-	42,631,788	-
Unamortized debt costs	333,146	106,866	415,249	-	855,261	-
Capital Assets:						
Land, improved and unimproved	7,033,656	17,834,755	35,301,665	-	60,170,076	22,506
Improvements other than buildings	-	81,554,468	64,790,579	-	146,345,047	268,565
Infrastructure	-	14,351	-	-	14,351	-
Buildings	33,597,257	32,591,722	181,671,417	-	247,860,396	-
Furniture, fixtures, equipment, and machinery	6,629,359	13,505,998	1,060,733	1,964,586	23,160,676	5,008,348
Automobiles and trucks	3,679,373	285,202	131,445	215,595	4,311,615	72,365,111
Construction in progress	1,040,507	-	7,646,674	-	8,687,181	691,302
Subtotal	51,980,152	145,786,496	290,602,513	2,180,181	490,549,342	78,355,832
Less: Accumulated depreciation	13,801,853	102,494,574	124,074,974	1,935,536	242,306,937	52,571,758
Total Capital Assets (net of accumulated depreciation)	38,178,299	43,291,922	166,527,539	244,645	248,242,405	25,784,074
Total Noncurrent Assets	38,511,445	77,723,583	175,249,781	244,645	291,729,454	25,784,074
Total Assets	78,670,449	103,660,681	186,586,023	14,532,768	383,449,921	180,481,585
LIABILITIES						
Current Liabilities:						
Accounts payable	10,971,156	4,243,809	1,539,536	229,333	16,983,834	8,727,170
Interest payable	-	26,563	298,220	-	324,783	758
Retainage payable	-	-	272,878	-	272,878	-
Deposits	272,718	-	-	8,739,723	9,012,441	-
Claims payable	-	-	-	-	-	109,555,407
Accrued liabilities	2,932,143	1,757,432	808,700	2,800,317	8,298,592	5,590,399
Due to other funds	413,920	188,718	73,603	1,046,531	1,722,772	7,524,012
Due to component units	-	-	-	687,362	687,362	-
Due to other governments	184,002	702,308	-	-	886,310	517
Equipment notes payable	-	-	81,782	-	81,782	600,622
Unearned Revenue	-	-	-	2,333,784	2,333,784	304,800
Revenue bonds payable	1,286,154	3,690,000	1,995,000	-	6,971,154	-
Landfill closure costs	-	1,049,790	-	-	1,049,790	-
Other liabilities	-	-	413,363	-	413,363	-
Total Current Liabilities	16,060,093	11,658,620	5,483,082	15,837,050	49,038,845	132,303,685
Noncurrent Liabilities:						
Revenue bonds payable	35,633,360	2,678,732	28,234,144	-	66,546,236	-
Landfill closure costs	-	16,580,333	-	-	16,580,333	-
Compensated absences	521,071	255,380	102,590	545,384	1,424,425	628,862
Other postemployment benefits	1,838,263	477,233	229,800	1,419,926	3,965,222	1,141,214
Total Noncurrent Liabilities	37,992,694	19,991,678	28,566,534	1,965,310	88,516,216	1,770,076
Total Liabilities	54,052,787	31,650,298	34,049,616	17,802,360	137,555,061	134,073,761
NET ASSETS						
Invested in capital, net of related debt	1,258,785	36,923,190	134,806,211	244,645	173,232,831	25,183,452
Restricted for debt service	7,219,950	34,324,795	8,306,993	-	49,851,738	-
Unrestricted	16,138,927	762,398	9,423,203	(3,514,237)	22,810,291	21,224,372
Total Net Assets	$ 24,617,662	$ 72,010,383	$ 152,536,407	$ (3,269,592)	245,894,860	$ 46,407,824
ADJUSTMENTS						
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,410,341)	
Net assets of business-type activities					$ 244,484,519	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-8

	Business-Type Activities - Enterprise Funds					
	Liquor	**Solid Waste Activities**	**Parking Lot Districts**	**Other Enterprise Funds**	**Totals**	**Governmental Activities- Internal Service Funds**
OPERATING REVENUES						
Sales - net	$ 240,523,067	$ -	$ -	$ -	$ 240,523,067	$ -
Charges for services	15,500	105,946,867	20,299,350	12,385,845	138,647,562	248,324,207
Licenses and permits	1,822,593	3,335	-	27,755,635	29,581,563	-
Fines and penalties	248,113	47,576	8,507,888	64,193	8,867,770	-
Claim recoveries	-	-	-	-	-	2,206,152
Total Operating Revenues	242,609,273	105,997,778	28,807,238	40,205,673	417,619,962	250,530,359
OPERATING EXPENSES						
Cost of goods sold	173,560,513	-	-	-	173,560,513	-
Personnel costs	24,466,639	12,866,056	3,895,351	22,230,602	63,458,648	24,782,825
Other post employment contributions	2,563,788	665,588	320,475	1,980,350	5,530,201	1,717,414
Postage	15,820	121,289	16,183	24,805	178,097	1,075,825
Self-insurance incurred and estimated claims	-	-	-	-	-	132,957,182
Insurance	777,220	689,651	19,790	156,970	1,643,631	23,413,018
Supplies and materials	45,194	913,212	393,520	260,152	1,612,078	27,473,273
Contractual services	2,112,073	80,126,674	5,854,383	4,265,460	92,358,590	11,287,823
Communications	476,255	249,584	195,067	244,668	1,165,574	715,630
Transportation	862,502	1,446,856	260,792	433,417	3,003,567	65,268
Public utility services	945,998	143,430	3,730,874	1,847,496	6,667,798	899,649
Rentals	6,072,435	22,404	1,238,652	2,325,417	9,658,908	1,644,178
Maintenance	472,189	565,474	2,550,213	295,803	3,883,679	10,829,267
Depreciation	1,633,972	2,405,883	10,902,731	146,187	15,088,773	7,029,404
Landfill closure expense	-	44,000	-	-	44,000	-
Other	179,801	112,521	2,646	6,333	301,301	295,115
Total Operating Expenses	214,184,399	100,372,622	29,380,677	34,217,660	378,155,358	244,185,871
Operating Income (Loss)	28,424,874	5,625,156	(573,439)	5,988,013	39,464,604	6,344,488
NONOPERATING REVENUES (EXPENSES)						
Property taxes	-	-	9,273,198	-	9,273,198	-
Gain (loss) on disposal of capital assets	-	115,896	1,270,390	-	1,386,286	136,517
Investment income	5,483	100,437	41,734	6,817	154,471	39,536
Interest expense	(1,175,003)	(517,570)	(1,375,274)	(128)	(3,067,975)	(14,099)
Other revenue	-	72,523	547,411	9,257	629,191	2,422,290
Insurance recoveries	-	35,245	-	-	35,245	447,247
Total Nonoperating Revenues (Expenses)	(1,169,520)	(193,469)	9,757,459	15,946	8,410,416	3,031,491
Income (Loss) Before Capital Contributions and Transfers	27,255,354	5,431,687	9,184,020	6,003,959	47,875,020	9,375,979
Transfers In (Out):						
Transfers in	-	-	-	25,000	25,000	-
Transfers out	(32,422,543)	(2,209,110)	(15,548,542)	(3,304,360)	(53,484,555)	(2,562,460)
Total Transfers In (Out)	(32,422,543)	(2,209,110)	(15,548,542)	(3,279,360)	(53,459,555)	(2,562,460)
Change in Net Assets	(5,167,189)	3,222,577	(6,364,522)	2,724,599	(5,584,535)	6,813,519
Total Net Assets - Beginning of Year	29,784,851	68,787,806	158,900,929	(5,994,191)		39,594,305
Total Net Assets - End of Year	$ 24,617,662	$ 72,010,383	$ 152,536,407	$ (3,269,592)		$ 46,407,824
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					475,601	
Change in net assets of business-type activities					$ (5,108,934)	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-9

	Business Type Activities - Enterprise Funds					**Governmental Activities - Internal Service Funds**
	Liquor	**Solid Waste Disposal and Collection**	**Parking Lot Districts**	**Other Enterprise Funds**	**Totals**	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 247,708,752	$ 102,933,291	$ 29,306,094	$ 38,944,857	$ 418,892,994	$ 250,273,193
Payments to suppliers	(193,546,791)	(86,730,961)	(14,545,265)	(11,155,935)	(305,978,952)	(76,966,338)
Payments to employees	(23,712,850)	(12,726,014)	(3,613,835)	(21,647,577)	(61,700,276)	(22,778,310)
Internal activity - payments from other funds	-	3,005,450	-	1,153,770	4,159,220	-
Other operating receipts	-	-	-	21,212,968	21,212,968	634,816
Other operating payments	-	-	-	(21,191,317)	(21,191,317)	-
Claims paid	-	-	-	-	-	(126,204,519)
Other revenue	-	107,768	547,411	9,257	664,436	2,422,290
Net Cash Provided (Used) by Operating Activities	30,449,111	6,589,534	11,694,405	7,326,023	56,059,073	27,381,132
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Property tax collections	-	-	9,273,198	-	9,273,198	-
Operating subsidies and transfers from other funds	-	-	-	630,000	630,000	-
Operating subsidies and transfers to other funds	(32,422,543)	(2,209,110)	(15,548,542)	(6,726,460)	(56,906,655)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(32,422,543)	(2,209,110)	(6,275,344)	(6,096,460)	(47,003,457)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	5,193,995	-	-	-	5,193,995	-
Proceeds from sale of capital assets	-	135,389	-	-	135,389	714,586
Acquisition and construction of capital assets	(1,502,881)	(1,333,293)	(5,236,219)	-	(8,072,393)	(1,477,874)
Principal paid on capital debt	(1,070,632)	(3,550,000)	(2,073,859)	(11,969)	(6,706,460)	(151,351)
Interest paid on capital debt	(1,323,072)	(460,750)	(1,363,159)	(287)	(3,147,268)	(15,572)
Internal activity - payments from other funds	-	-	-	-	-	(2,562,460)
Net Cash Provided (Used) by Capital and Related Financing Activities	1,297,410	(5,208,654)	(8,673,237)	(12,256)	(12,596,737)	(3,492,671)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income from pooled investments	5,090	17,043	4,575	6,817	33,525	39,482
Investment income from nonpooled investments	393	(341)	-	-	52	54
Net Cash Provide (Used) by Investing Activities	5,483	16,702	4,575	6,817	33,577	39,536
Net Increase (Decrease) in Cash and Cash Equivalents	(670,539)	(811,528)	(3,249,601)	1,224,124	(3,507,544)	23,927,997
Balances - Beginning of Year	9,635,827	53,635,054	18,498,286	12,972,053	94,741,220	114,648,257
Balances - End of Year	$ 8,965,288	$ 52,823,526	$ 15,248,685	$ 14,196,177	$ 91,233,676	138,576,254
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	$ 28,424,874	$ 5,625,156	$ (573,439)	$ 5,988,013	$ 39,464,604	$ 6,344,488
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	1,633,972	2,405,883	10,902,731	146,187	15,088,773	7,029,404
Other revenue	-	107,768	547,411	9,257	664,436	2,422,290
Receivables, net	(268,148)	(432,454)	494,810	(88,043)	(293,835)	377,650
Inventories, prepaids and other assets	(964,509)	396	4,046	189,765	(770,302)	(134,370)
Accounts payable and other liabilities	1,910,177	(1,614,950)	49,123	520,541	864,891	10,293,936
Accrued expenses	(287,255)	497,735	269,723	560,303	1,040,506	1,047,734
Net Cash Provided (Used) by Operating Activities	$ 30,449,111	$ 6,589,534	$ 11,694,405	$ 7,326,023	$ 56,059,073	$ 27,381,132
Noncash investing, capital and financing activities:						
Change in fair value of investments that are not cash and cash equivalents	$ -	$ (63,474)	$ 37,160	$ -	$ (26,314)	$ -
Capital asset disposals	-	19,491	58,257	59,663	137,411	-
Noncash gain on land disposal used to fund construction costs	-	-	1,270,390	-	1,270,390	-

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011
Exhibit A-10

	Pension and Other Employee Benefit Trusts	Investment Trust	Private-Purpose Trusts	Agency Funds
ASSETS				
Current Assets:				
Equity in pooled cash and investments	$ 1,362,399	$ 52,923,348	$ 739,972	$ 25,461,643
Cash	-	-	-	173,410
Investments:				
U.S. Government and agency obligations	291,168,660	-	-	-
Asset-backed securities	23,074,251	-	-	-
Municipal/Provincial bonds	3,521,986	-	-	-
Corporate bonds	529,817,550	-	-	-
Collateralized mortgage obligations	4,494,269	-	-	-
Commercial mortgage-backed securities	68,577	-	-	-
Common and preferred stock	1,293,907,305	-	-	-
Mutual and commingled funds	670,499,295	-	-	-
Short-term investments	236,990,877	-	-	-
Cash collateral received under securities lending agreements	278,648,672	-	-	-
Real estate	119,090,399	-	-	-
Private equity	210,629,024	-	-	-
Total investments	3,661,910,865	-	-	-
Receivables (net of allowances for uncollectibles):				
Receivables and accrued interest	19,514,710	-	-	-
Property taxes	-	-	-	4,250,487
Accounts	258,100	-	-	100,980
Due from other funds	16,666,352	-	-	-
Due from component units	1,252,848	-	-	-
Due from other governments	38,265	-	-	-
Total Current Assets	3,701,003,539	52,923,348	739,972	29,986,520
Total Assets	3,701,003,539	52,823,348	739,972	$ 29,986,520
LIABILITIES				
Current Liabilities:				
Accounts payable	284,723,260	-	-	$ 24,750
Accrued liabilities	289,705	-	-	1,395
Deposits	-	-	-	920,578
Claims payable	4,492,121	-	-	-
Due to other funds	25,190	-	-	-
Due to other governments	-	-	-	1,440,833
Uncollected property taxes due to governments	-	-	-	3,925,991
Undistributed taxes and refunds	-	-	-	5,140,499
Unearned revenue	77,121	-	-	-
Tax sale surplus and redemptions payable	-	-	-	3,147,132
Other liabilities	-	-	-	15,385,342
Total Current Liabilities	289,607,397	-	-	29,986,520
Noncurrent Liabilities:				
Compensated absences	64,192	-	-	-
Total Liabilities	289,671,589	-	-	$ 29,986,520
NET ASSETS				
Held in trust for pension and other postemployment benefits, external investment pool participants, and other purposes	$ 3,411,331,950	$ 52,923,348	$ 739,972	

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-11

	Pension and Other Employee Benefit Trusts	**Investment Trust**	**Private-Purpose Trusts**
ADDITIONS			
Contributions:			
Employers	$ 167,812,971	$ -	$ -
Members	61,644,863	-	40,000
Federal government - Medicare Part D	1,654,013	-	-
Share purchases	-	28,869,686	-
Total Contributions	231,111,847	28,869,686	40,000
Investment income (loss)	616,595,687	59,085	703
Less: Investment expenses	21,148,372	-	-
Net Investment Income (Loss)	595,447,315	59,085	703
Other income - forfeitures	425,002	-	-
Total Additions, net	826,984,164	28,928,771	40,703
DEDUCTIONS			
Benefits:			
Annuities:			
Retirees	129,940,460	-	-
Survivors	7,944,401	-	-
Disability	40,906,886	-	-
Claims	51,071,129	-	-
Total Benefits	229,862,876	-	-
Share redemptions	-	20,660,000	-
Member refunds	23,599,935	-	-
Administrative expenses	6,514,738	-	6,656
Total Deductions	259,977,549	20,660,000	6,656
Net Increase (Decrease)	567,006,615	8,268,771	34,047
Net Assets - Beginning of Year	2,844,325,335	44,654,577	705,925
Net Assets - End of Year	$ 3,411,331,950	$ 52,923,348	$ 739,972

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2011
Exhibit A-12

	MCPS	**HOC**	**Nonmajor Component Units**	**Total**
ASSETS				
Equity in pooled cash and investments	$ 49,233,420	$ -	$ 22,624,102	$ 71,857,522
Cash with fiscal agents	-	40,487,837	804,543	41,292,380
Cash	6,579,242	18,918	6,170,491	12,768,651
Investments-cash equivalents	56,779,927	39,761,095	51,510,736	148,051,758
Investments	4,578,640	-	31,272,287	35,850,927
Receivables (net of allowances for uncollectibles):				
Capital leases	-	-	24,400,121	24,400,121
Accounts	17,827,991	431,510	4,002,456	22,261,957
Notes	-	-	45,720,000	45,720,000
Mortgages receivable	-	375,499,211	-	375,499,211
Interest	-	6,447,532	-	6,447,532
Other	390,976	2,946,688	1,571,086	4,908,750
Due from primary government	69,634,864	1,389,934	7,034,263	78,059,061
Due from other governments	23,302,572	651,432	7,673,714	31,627,718
Inventory of supplies	7,699,325	262,919	1,961,597	9,923,841
Prepaids	265,737	2,651,147	1,855,993	4,772,877
Deferred charges	-	-	425,771	425,771
Other assets	1,106,600	44,947,105	62,629,186	108,682,891
Restricted Assets:				
Equity in pooled cash and investments	-	-	6,900,795	6,900,795
Cash with fiscal agents	-	20,882,272	-	20,882,272
Cash	-	-	641,585	641,585
Investments - cash equivalents	-	78,171,552	-	78,171,552
Investments	-	180,694,511	3,294,810	183,989,321
Capital Assets:				
Nondepreciable assets	216,456,909	85,132,353	98,289,378	399,878,640
Depreciable assets, net	1,882,550,455	376,527,039	317,210,647	2,576,288,141
Total Assets	2,336,406,658	1,256,903,055	695,993,561	4,289,303,274
LIABILITIES				
Accounts payable	32,128,765	16,224,739	23,677,768	72,031,272
Interest payable	-	27,669,093	805,614	28,474,707
Retainage payable	7,728,738	-	5,000	7,733,738
Accrued liabilities	83,420,537	6,795,747	997,933	91,214,217
Claims payable	17,309,242	-	-	17,309,242
Deposits	-	10,186,579	82,535	10,269,114
Due to primary government	16,271,476	67,841,318	3,063,524	87,176,318
Due to other governments	-	-	63,232	63,232
Unearned revenue	17,981,631	21,745,161	6,342,341	46,069,133
Other liabilities	-	19,228,271	62,327	19,290,598
Noncurrent Liabilities:				
Due within one year	23,102,790	101,425,261	10,126,650	134,654,701
Due in more than one year	430,720,600	792,787,796	184,699,568	1,408,207,964
Total Liabilities	628,663,779	1,063,903,965	229,926,492	1,922,494,236
NET ASSETS				
Invested in capital, net of related debt	2,077,734,151	28,154,346	346,196,803	2,452,085,300
Restricted for:				
Capital projects	-	-	153,888	153,888
Debt service	-	49,808,995	3,325,326	53,134,321
Other purposes	1,309,070	14,188,056	25,898,890	41,396,016
Unrestricted (deficit)	(371,300,342)	100,847,693	90,492,162	(179,960,487)
Total Net Assets	$ 1,707,742,879	$ 192,999,090	$ 466,067,069	$ 2,366,809,038

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
Exhibit A-13

		Program Revenues			**Net (Expense) Revenue and Changes in Net Assets**			
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**MCPS**	**HOC**	**Nonmajor Component Units**	**Total**
Component Units:								
General government	$ 4,379,007	$ 4,188,105	$ 211,003	$ -	$ -	$ -	$ 20,101	$ 20,101
Culture and recreation	18,217,219	16,540,875	-	2,988,841	-	-	1,312,497	1,312,497
Community development and housing	222,128,938	108,168,343	105,800,194	5,941,033	-	(2,219,368)	-	(2,219,368)
Education:								
Secondary education	2,446,298,246	30,805,697	141,432,227	54,955,236	(2,219,105,086)	-	-	(2,219,105,086)
Higher education	278,827,886	77,112,136	40,932,761	628,185	-	-	(160,154,804)	(160,154,804)
Total component units	$ 2,969,851,296	$ 236,815,156	$ 288,376,185	$ 64,513,295	(2,219,105,086)	(2,219,368)	(158,822,206)	(2,380,146,660)
General revenues:								
Grants and contributions not restricted to specific programs					2,257,231,024	-	188,020,318	2,445,251,342
Investment Income					-	627,137	7,762,179	8,389,316
Gain on sale of capital assets					189,763	-	46,367	236,130
Total general revenues					2,257,420,787	627,137	195,828,864	2,453,876,788
Change in net assets					38,315,701	(1,592,231)	37,006,658	73,730,128
Net assets - beginning					1,669,427,178	194,591,321	429,060,411	2,293,078,910
Net assets - ending					$ 1,707,742,879	$ 192,999,090	$ 466,067,069	$ 2,366,809,038

Notes to the Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

A) Reporting Entity

Background

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

As required by GAAP, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The County reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

Discretely Presented Component Units

The financial data of the County’s component units are discretely presented in a column separate from the financial data of the primary government, to emphasize that the component units are legally separate from the Primary Government. Financial information regarding the component units is included in the component units’ combining statements.   The following are the County’s component units, each of which has a June 30 fiscal year-end:

Montgomery County Public Schools (MCPS) provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education, including one student member, are elected by the voters. However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

Montgomery Community College (Montgomery College or MCC) provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC is responsible for post secondary education within the government's jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the State Governor must agree upon the trustees to serve on the College's Governing Board. In addition, the County Council reviews and approves both the operating and capital budgets and budgetary amendments of MCC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

Montgomery County Revenue Authority (MCRA) is governed by a five-member Board of Directors. All members are appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of MCRA. MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.

Housing Opportunities Commission of Montgomery County (HOC) is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to $50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the U.S. Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI’s funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements can be obtained at the component units’ administrative offices listed below:

Montgomery County Public Schools
850 Hungerford Drive
Rockville, MD 20850

Montgomery College
900 Hungerford Drive
Rockville, MD 20850

Montgomery County Revenue Authority
101 Monroe Street, 4th Floor
Rockville, MD 20850

Housing Opportunities Commission
of Montgomery County, Maryland
10400 Detrick Avenue
Kensington, MD 20895-2484

Bethesda Urban Partnership, Inc.
7700 Old Georgetown Road
Bethesda, MD 20814

Joint Ventures

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D. Complete financial statements can be obtained at the joint ventures’ offices listed below:

Maryland-National Capital Park and
Planning Commission
6611 Kenilworth Avenue
Riverdale, MD 20737

Washington Suburban Sanitary
Commission
14501 Sweitzer Lane
Laurel, MD 20707

Washington Suburban Transit
Commission
4351 Garden City Drive, Suite 305
Hyattsville, MD 20785

Washington Metropolitan Area
Transit Authority
600 Fifth Street, NW
Washington, DC 20001

Metropolitan Washington Council
of Governments
777 N. Capitol Street, NE, #300
Washington, DC 20002

Northeast Maryland Waste
Disposal Authority
100 South Charles St, Tower II-Suite 402
Baltimore, MD 21201

B) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Statement of Net Assets – This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. Net assets are divided into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – This statement demonstrates the degree to which the direct expenses of a given function or segment for the fiscal year are offset by program revenues. Therefore, this statement reflects both the gross and net costs per functional category (general government, public safety, public works and transportation, health and human services, culture and recreation, community development and housing, environment, and education) that are otherwise being supported by general revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses.

Budget-to-Actual Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. Budget-to-actual comparison schedules for the General Fund and the County's major special revenue funds, (Revenue Stabilization, Housing Initiative, and Grants) are presented as Required Supplementary Information.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement Focus and Basis of Accounting

Full Accrual Basis Financial Statements - The government-wide, proprietary fund, and certain fiduciary fund (pension and other employee benefit trusts, investment trust, and private-purpose trusts) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements. The agency funds also use the accrual basis of accounting to recognize assets and liabilities.

Modified Accrual Basis Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the governmental funds, revenues are recorded as soon as they are susceptible to accrual (both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments and compensated absences are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

In applying the susceptible to accrual concept to income taxes (distributed by the State), property taxes, and intergovernmental revenues other than grants, the County defines "available" to mean received within 30 days after year-end.

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the County's availability period. Amounts relating to late filers are expected to be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years. Deferred revenue relating to income taxes primarily includes amounts related to late filers, delinquent returns and audits, and remaining unallocated withholding.

In applying the susceptible to accrual concept to operating and capital grants, classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as deferred revenue within the governmental funds and unearned revenue in the government-wide financial statements.

Charges for services, licenses and permits, fines and penalties, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 30 day availability period, they are recognized as revenue; if not, such amounts are reported as deferred revenue.

Financial Statement Presentation

The County reports the following major governmental funds:

General Fund - This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Revenue Stabilization Fund - This fund is used to account for the accumulation of resources at a targeted reserve level sufficient to address unexpected increases or decreases in revenues and expenditures. Funds may be drawn upon during periods of economic slowdown, when a current year appropriation has become unfunded due to revenue shortfalls or unexpected expenditure increases.

Housing Initiative Fund - This fund is used to account for the fiscal activity for financing, supplementing, and constructing affordable residential facilities for eligible participants.

Grants Fund - This fund accounts for the Federal and State grant-funded activities of the tax-supported General Fund and special revenue funds.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments are used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The County reports the following major enterprise funds:

Liquor Enterprise Fund - This fund accounts for the operations of twenty-four liquor stores and two Montgomery County liquor warehouses. Under State law, the Montgomery County Department of Liquor Control has a monopoly on the distribution of alcoholic beverages, and the sale of spirits, within the County.

Solid Waste Activities Enterprise Fund - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling and leaf vacuuming, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County. The Vacuum Leaf Collection program provides leaf collection services to downcounty residents during the late fall/winter months.

Parking Lot Districts Enterprise Fund - This fund accounts for the fiscal activity related to serving the parking needs of the people who work and shop in the four central business districts zoned for commercial or industrial use identified as Silver Spring, Bethesda, Wheaton, and Montgomery Hills.

Additionally, the County reports the following fund types:

Other Governmental Funds - The other governmental fund types used by the County are special revenue and permanent. Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis. There are four internal service funds reported by the County: Motor Pool, Liability and Property Coverage Self-Insurance, Employee Health Benefits Self-Insurance, and Central Duplicating.

The County reports the following fiduciary fund types:

Pension and Other Employee Benefit Trust Fund - This fund is used to account for all activities of the Employees' Retirement System of Montgomery County (defined benefit plan), Employees' Retirement Savings Plan (defined contribution plan), Deferred Compensation Plan, and Retiree Health Benefits Trust, including accumulation of resources for, and payment of, retirement annuities and/or other benefits and administrative costs.

Investment Trust Fund - This fund accounts for the portion of the external investment pool, sponsored by the County, that belongs to participating governments that are not part of the County reporting entity.

Private-Purpose Trust Funds - These funds account for arrangements under which principal and interest are legally held in trust for parties outside of the County, such as court appointed guardians, and others, and must be expended in accordance with their designated purposes.

Agency Funds - These funds are used to account for assets, such as property taxes, held in a purely custodial capacity, where the County receives, temporarily invests, and remits such resources to individuals, private organizations, or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

Pooled Cash and Investments – The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value plus accrued interest. See Note III-A for additional information.

Non-pooled Investments:

Proprietary Fund Types – The Solid Waste Activities and the Parking Lot District enterprise funds investments in U.S. Government securities are stated at fair value plus accrued interest.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2011. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers' appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Cash and Cash Equivalents – For Statement of Cash Flows reporting purposes, "cash equivalents" are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less, at the time of purchase, meet this definition. The balance sheet classification for "cash and cash equivalents" in the Statement of Cash Flows includes the following: "Equity in pooled cash and investments," "Cash," "Cash with fiscal agents," and "Restricted Equity in pooled cash and investments."

2) Receivables and Payables

Due From/To Other Funds and Internal Balances – Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the year and where repayment is expected within a reasonable time are referred to as "due from/to other funds." Such outstanding balances not expected to be repaid within a reasonable time are included in interfund "transfers in/out." Any residual balances of "due from/to other funds" outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Trade Accounts Receivable – Trade and other receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated based on historical collection data and, in some cases, specific account analysis.

3) Inventories and Prepaids

Inventories – Inventories are valued at the lower of cost (principally first-in, first-out) or market in the Liquor Enterprise Fund and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Motor Pool Internal Service Fund and the governmental fund types. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and Motor Pool Internal Service Fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

Prepaids – Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

4) Restricted Assets

Certain proceeds of the County's bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

5) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of

$5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and structures	20 – 40
Improvements other than buildings	3 – 40
Infrastructure	20 – 60
Furniture, fixtures, equipment and machinery	3 – 20
Automobiles and trucks	2 – 15

For Statement of Cash Flows reporting purposes, proceeds from insurance on capital assets that are stolen or destroyed are classified as proceeds from sale of capital assets.

6) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer’s share of social security and medicare taxes. Based on a historical analysis of leave usage, accrued leave is classified as current and long-term. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

7) Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8) Fund Equity/Net Assets

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The related capital assets are reported on the financial statements of these governments. For MCPS and MCC, component units of the County, this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2011, the County has reported outstanding general obligation bond, variable rate demand obligation, and bond anticipation note debt related to MCPS, MCC, and M-NCPPC amounting to $1,359,354,018. Absent the effect of this relationship, the County would have reported a deficit in unrestricted net assets of governmental activities in the amount of $28,774,720.

In the government-wide Statement of Net Assets (Exhibit A-1), the amount reported in the Business-type Activities column for net assets invested in capital, net of related debt, includes $45,898,030 in capital assets acquired by the Silver Spring Parking Lot District. Since the related capital lease liability of $27,019,271 at June 30, 2011, is an obligation of the Governmental Activities (see Note III-E3), and the debt does not relate to a governmental capital asset, the impact of such debt is reported in the unrestricted portion of net assets in the Governmental Activities column. However, in the Total Primary Government column, the impact of such debt has been reclassified and reflected with the associated capital asset, in net assets invested in capital, net of related debt.

In the fund financial statements, governmental funds report restricted, committed, and assigned fund balance categories for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the “available” criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than any of the constrained categories of fund balance. In the Capital Projects Fund, fund balance restricted/committed for other purposes represents recordation and impact tax collections on hand that are legally restricted for use on projects of other component unit and municipality governments.

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY11. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of nine members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate adopted for levy year 2010 (i.e., FY11), in conjunction with a one-time income tax offset credit, met the Charter limit for that year.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Owner-occupied residential property owners pay their tax on a semi-annual schedule, with the first and second installments due on September 30 and December 31, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1 or in the case of a semi-annual schedule, January 1.

E) New Accounting Standards

The County has adopted the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. Additionally, this statement clarifies the definitions of the general fund, special revenue funds and capital project fund as applicable to the County. This statement changes fund balance classifications reported in the Governmental Fund Balance Sheet and requires expanded disclosure of the County's policies and procedures as it relates to authority levels, spending policy, and reporting of encumbrances. The classifications used in governmental fund financial statements are as follows:

Nonspendable: Amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact, such as a permanent fund. Not in spendable form includes items that are not expected to be converted to cash, such as inventories and prepaid items.

Restricted: Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County Council, the County's highest level of decision making authority, through the passing of ordinances. These amounts cannot be used for any other purpose unless the County removes or changes the ordinances that were employed when the funds were initially committed.

Assigned: Amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the County Council and the County Executive or through the County delegating this responsibility to the County Administrative Officer or County department heads.

Unassigned: The residual classification for the County's funds and includes all spendable amounts not contained in the four classifications described above.

Order of Fund Balance Spending Policy

The County has established a fund balance spending policy for those instances where an expenditure is incurred for a purpose for which amounts in any of the restricted or unrestricted fund balance classifications (committed, assigned, or unassigned) could be used. The County will apply expenditures against restricted amounts first, followed by the committed, assigned and unassigned amounts.

GASB 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement has no significant impact on the current fiscal year reporting as a result of implementing this Statement.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Budgetary Information

Overview

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds (except for the Agricultural Transfer Tax Fund), Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as restricted, committed, or assigned category of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in two major categories (personnel costs and operating) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note III-H1), such encumbrances are reported as a restricted or committed component of the current fiscal year's fund balance. The annual budget must be consistent with the six-year program for public services and fiscal policy. Multi-year planning provides a framework to make informed decisions about the levels of public services and project the impact of what may happen as a result of current decisions and policies. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY11, the County Council increased the operating budget through supplemental and special appropriations by $36.8 million. In addition, supplemental appropriations increased the CIP budget by $35.5 million.

Presentation

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Proprietary fund budgets do not include depreciation and bad debts, however they do include debt service payments and capital outlay.
- Year-end incurred but not reported (IBNR) adjustments in the self-insurance internal service funds are not budgeted for, as they are incorporated into the budget preparation process of the following fiscal year.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Retirement of commercial paper bond anticipation notes through the issuance of general obligation bonds is not budgeted.
- Proceeds under certain capital lease financing are not budgeted.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

Adjustments necessary to reconcile the General Fund budgetary and GAAP statements are as follows:

	Revenues	and Encumbrances	Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	$ 2,642,666,422	$ 846,715,724	$ (1,745,747,144)	$ 50,203,554
Reconciling items:				
Cancellation of prior year encumbrances	(1,004,764)	-	-	(1,004,764)
Elimination of encumbrances outstanding	-	(11,022,956)	-	11,022,956
Unrealized gains (1osses)	27,719	-	-	27,719
Financing under notes payable	-	97,525	97,525	-
Conference Center activity	15,569,598	15,569,598	-	-
Interfund activities budgeted as transfers:				
Recreation facility maintenance costs	1,663,210	-	(1,663,210)	-
Public agency permits	-	1,153,770	1,153,770	-
Solid waste tipping fees	-	1,992,800	1,992,800	-
Community use of public facilities for elections	-	248,500	248,500	-
Component Unit activities budgeted as transfers:				
Component Units - Transfer in	247,613	-	(247,613)	-
Component Units and Joint Venture - Transfer out	-	1,532,153,074	1,532,153,074	-
As reported - GAAP basis	$ 2,659,169,798	$ 2,386,908,035	$ (212,012,298)	$ 60,249,465

B) Deficit Fund Equity

Fire Tax District – The fund balance deficit in the Fire Tax District (FTD) Fund was caused primarily by the County's mid year termination of the planned Emergency Medical Services Transport (EMST) fee in a voter referendum on the issue in the November 2010 elections. The County had planned to collect $14 million in EMST fee revenue in FY11, but fee collection was never initiated due to the referendum. In addition, the FTD incurred higher than anticipated overtime costs. To address this shortfall, management recommended and the County Council approved increased property tax rates for the FTD in FY12 which eliminates the current deficit by the end of FY13.

Permitting Services – The $5,184,035 total net deficit in the Permitting Services Fund was caused by the severe economic downturn, which resulted in a loss in assets of $7,380,995 in FY09 and $2,923,619 in FY10. In the FY11 budget process, Permitting Services reduced staff by 16 filled and 25 vacant positions. With the increased projections for revenue, the cash deficit was projected to be eliminated in FY11. As a result of these measures the net deficit was reduced by $2,073,401, from $7,257,436 to $5,184,035 in FY11. In the FY12 budget process, two measures to improve cash flow and to increase current year revenue were approved, collecting 30% of permit fees at time of application, and increasing the cap on commercial building permits. Combined with the costs savings measures from FY11 continued in FY12 the cash and net deficits will be eliminated in FY12.

Liability and Property Coverage Self Insurance - The $6,434,891 total net deficit in the Liability and Property Coverage Self Insurance Fund was caused by an increase in claims payable and a carryover from the previous fiscal year of a net deficit of $6,990,990. The trend of increasing claims payable liabilities began in FY09 and was the primary cause of the total net deficit in this fund in FY10 as well. Management has increased the participants' premium contributions to this fund beginning in FY10 and continuing through FY12 to align fund revenues with projected future claims costs and eliminate the net deficit.

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Overview

The Montgomery County reporting entity total cash and investments as of June 30, 2011, totaled $4,930,585,359 of which $4,330,178,598 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

Statement of Net Asset Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 576,411,384	$ 71,857,522	$ 648,268,906
Cash with fiscal agents	48,499,763	41,292,380	89,792,143
Cash	724,798	12,768,651	13,493,449
Investments - cash equivalents	-	148,051,758	148,051,758
Investments	3,661,910,865	35,850,927	3,697,761,792
Restricted equity in pooled cash and investments	36,596,074	6,900,795	43,496,869
Restricted cash with fiscal agents	-	20,882,272	20,882,272
Restricted cash	-	641,585	641,585
Restricted investments - cash equivalents	-	78,171,552	78,171,552
Restricted investments	6,035,714	183,989,321	190,025,035
Total	$ 4,330,178,598	$ 600,406,763	$ 4,930,585,361
Deposit and Investment Summary:			
Deposits	$ 416,530,117	$ 124,247,372	$ 540,777,489
Investments	3,864,423,920	363,753,531	4,228,177,451
Cash on hand, fiscal agents, safe deposit escrow	49,224,561	112,405,860	161,630,421
Total	$ 4,330,178,598	$ 600,406,763	$ 4,930,585,361

Primary Government cash and investments reconciles to the basic financial statements as follows:

Government-wide	$ 587,606,961
Fiduciary funds	3,742,571,637
Total	$ 4,330,178,598

PRIMARY GOVERNMENT

2) External Investment Pool

Overview:

The County maintains an external investment pool that is subject to oversight by the County's Internal Investment Committee, but is not subject to regulatory oversight by the Securities and Exchange Commission (SEC). Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements.

Participants' shares redeemed during the year are based on actual cost; participants' shares are then adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of "2a-7 like." The fair value of U. S. Government securities, repurchase agreements, commercial paper and bankers' acceptances are provided by the County's custodian, which are based on various industry standard pricing sources. For interest-bearing investments, market value quotations do not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest are typically classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and any adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) is typically recorded in the General Fund, since this amount is not material. At year-end, based on the nature of investments held, there was no adjustment to fair value, since fair value was the same as cost.

External investment pool amounts, included in the schedule above, are as follows:

Balance Sheet Amounts:	Primary Government	Component Units	Total Reporting Entity
Equity in pooled cash and investments	$ 576,411,384	$ 4,029,968	$ 580,441,352
Restricted equity in pooled cash and investments	36,596,074	-	36,596,074
Total	$ 613,007,458	$ 4,029,968	$ 617,037,426
Deposit and Investment Summary:			
Deposits	$ 416,530,117	$ -	$ 416,530,117
Investments, including accrued interest	196,477,341	4,029,968	200,507,309
Total	$ 613,007,458	$ 4,029,968	$ 617,037,426

Deposits:

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statute requires that securities underlying certificates of deposit have a market value that equals or exceeds the cost of the deposit while County investment policy requires a market value of at least 102 percent of the cost of the deposit. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County's name at a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits typically include bank accounts and non-negotiable certificates of deposit; at year-end the County held no non-negotiable certificates of deposit. Deposits at financial institutions were fully insured or collateralized at year-end. Therefore, the County has no significant exposure to custodial credit risk.

Investments:

The County, through its external investment pool, maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policies as approved by the County Council. At year-end, the investment portfolio was comprised of money market mutual funds and the Maryland Local Government Investment Pool (MLGIP). During the year, the County also invested in U.S. Government securities. The County was in compliance with all applicable investment statutes throughout the fiscal year.

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created the Maryland Local Government Investment Pool with the passage of Article 95 §22G, of the Annotated Code of Maryland. The Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund for municipalities that is a very safe, highly efficient, programmed approach to investing. Participants are provided professional money management, a well-diversified portfolio and reduced cost. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The MLGIP, under the administrative control of the State Treasurer, is managed by PNC Institutional Investments. An MLGIP Advisory Committee of current participants was formed to review, on a semi-annual basis, the activities of the Fund and to provide suggestions to enhance the Pool.

Investment Type:	Fair Value	Principal	Maturity Range	Interest Range
Money market mutual funds	$ 200,133,678	$ 200,133,678	n/a	0.00 - 0.12%
State pool	373,631	373,631	n/a	0.002
Total	$ 200,507,309	$ 200,507,309		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits investments to maturities of one year or less. However, a portion of the portfolio may be invested in investments with longer maturities (up to two years); any investment with a maturity of over 12 months must be approved by the Director of Finance prior to execution. As of June 30, 2011, the County's investment maturities are as follows:

		Investment Maturities (in Years)	
Investment Type:	Fair Value	Less than 1	1-2
Money market mutual funds	$ 200,133,678	$ 200,133,678	-
State pool	373,631	373,631	-
Total	$ 200,507,309	$ 200,507,309	$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, the MLGIP, and money market mutual funds that are registered and operate in accordance with Rule 2a-7 and in accordance with Maryland State Code. State statutes and County policies require that these money market mutual funds invest only in obligations of U.S. Treasuries, U.S. agencies and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities.

The County's investments held at year-end or during the year were rated as follows:

	Ratings		
Investment Type	Standard & Poor's	Fitch	Moody's
Repurchase agreements [1]	N/R	N/R	N/R
U.S. Government securities [2]:			
Agency discount notes	A-1+	F1+	P-1
Other U.S. Government securities	AAA	AAA	Aaa
Commercial paper [3]	A-1	F1	P-1
Bankers' acceptances [4]	N/R	N/R	N/R
Certificates of deposit [5]	N/R	N/R	N/R
Money market mutual funds	AAA	AAA	Aaa

N/R - Not Rated

1 - Disclosure of the credit risk for the County's repurchase agreements is required since the underlying securities are not issued or explicitly guaranteed by the U.S. Government.

2 - Only includes securities implicitly guaranteed by the U.S. Government.

3 - Not all commercial paper is rated by all agencies. However, each commercial paper is rated by at least one rating agency. Each such rating is of the highest investment grade.

4 - While the bankers' acceptances are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

5 - While the certificates of deposit are not rated, County policy requires that the underlying issuer is of the highest short-term investment grade.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name.

County and State statutes require that securities underlying repurchase agreements have a market value of at least 102 percent of the cost of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all repurchase agreements. At June 30, 2011, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk for investments is the risk that, in the event of failure of an issuer, the County will not be able to recover the value of the investment or suffer a loss as a result of the magnitude of the County's investment in that single issuer. It is the County's practice to manage the investment portfolio according to the County's investment policy, and the guidelines as outlined in the Annotated Code of Maryland, 6-222, to insure diversification by investment type and institution in order to avoid unreasonable and foreseeable risks but in conjunction with the need to ensure safety, liquidity and return in an ever changing economic environment. The County's policy provides the maximum limits as follows:

Diversification by Investment Type	Maximum percent of Portfolio*
U. S. Treasury obligations	100 %
U. S. Government agencies	50
Repurchase agreements	50
Bankers' acceptances	50
Money market mutual fund	25
Local government investment pool	25
Collateralized certificates of deposit**	25
Commercial paper	5

Diversification by Institution	Maximum percent of Portfolio*
Approved broker/dealers	50 %
Money market mutual funds by fund	25
Bankers' acceptances by country	25
Bankers' acceptances by institution	10
Commercial banks (certificates of deposit)**	10
U.S. Government agencies by agency	20

***** At time of purchase

** Certificates of deposit are classified as deposits for financial reporting purposes.

The County's investment portfolio at year-end was comprised of money market mutual funds and the MLGIP, for liquidity, safety, and return purposes based on the economic environment, as provided for under State law and the County's investment policy objectives.

*As of June 30, 2011, five percent or more of the County's investments were only held in money market mutual funds.

External Investment Pool Condensed Financial Statements:

The condensed financial statements of the County's external investment pool at June 30, 2011, are as follows:

Statement of Net Assets
June 30, 2011

Assets:	
Investment in securities, at fair value	$ 200,507,309
Cash	416,530,117
Accrued interest receivable	-
Total assets and net assets	$ 617,037,426
Net assets consist of:	
Internal participants' units outstanding ($1.00 par)	$ 564,114,078
External participants' units outstanding ($1.00 par)	52,923,348
Net assets	$ 617,037,426
Participants net asset value, offering price and redemption price per share ($617,037,426 /617,037,426 units)	$ 1.00

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

Investment Income *		$ 342,663
Distributions to participants:		
Distributions paid and payable		(342,663)
Share transactions at net asset value of $1.00 per share:		
Purchase of units	$ 1,390,431,068	
Redemption of units	(1,277,820,434)	
Net decrease in net assets and shares resulting from share transactions		112,610,634
Total decrease in net assets		112,610,634
Net assets, July 1, 2010		504,426,792
Net assets, June 30, 2011		$ 617,037,426

* The pool has no expenses.

3) Major and Nonmajor Fund Deposit and Investment Risks

Primary government (non fiduciary) cash and investments are primarily invested in the County's external investment pool. Major funds with significant cash and investments comprised of other than the external investment pool include the following:

Debt Service Fund - Cash with fiscal agents of $3,343,109 represents lease revenue bond debt service reserve funds which are held in money market mutual funds and U.S Government securities.

Capital Projects Fund - Cash with fiscal agents of $35,804,086 is held in money market mutual funds.

Liquor Fund – Cash with fiscal agents of $7,219,950 at the end of FY11 was held in money market funds for the purpose of disbursement of design, planning and renovation costs for a warehouse.

There are no cash and investments in nonmajor funds with significantly greater risk exposures than those described above or those relating to the external investment pool.

4) Fiduciary Funds

Employees' Retirement System:

Investment Overview

Section 33-61C of the County Code (Code), authorizes the Board of Investment Trustees (Board) (see Note IV-F) to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Employees' Retirement System (System) is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by the County, any political subdivision within the County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by the County.

Credit Risk/Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines, for the majority of public fund managers, limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2011, are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$ 65,315,517	7.35 %
Foreign Government Obligations	AAA	7,619,034	0.86
	A	5,413,520	0.61
	BBB	1,835,371	0.21
	BB	1,857,842	0.21
	CCC	27,724	0.00
	Unrated	2,155,451	0.24
Asset-Backed Securities	AAA	2,433,055	0.27
	BBB	159,905	0.02
	B	606,349	0.07
	CCC	322,677	0.04
Commercial Mortgage-Backed Securities	BB	68,577	0.01
Collateralized Mortgage Obligations	AAA	244,248	0.03
	AA	426,445	0.05
	A	343,577	0.04
	BBB	520,313	0.06
	B	457,428	0.05
	CCC	1,760,408	0.20
	D	741,851	0.08
Municipal/Provincial Bonds	AAA	6,367,373	0.72
	AA	10,192,973	1.15
	A	5,827,963	0.65
	Unrated	685,942	0.08
Corporate Bonds	AAA	4,409,283	0.50
	AA	40,899,000	4.60
	A	124,390,534	14.00
	BBB	70,489,992	7.93
	BB	59,751,166	6.72
	B	91,805,950	10.33
	CCC	37,443,802	4.21
	CC	3,249,147	0.36
	C	622,000	0.07
	D	1,837,047	0.21
	Unrated	11,840,828	1.33
Fixed Income Pooled Funds	Unrated	290,023,002	32.63
Short-term Investments and Other	Unrated	36,534,841	4.11
Total Fixed Income Securities		$ 888,680,135	100.00 %

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board’s investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent.

As of June 30, 2011, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	14.68	$ 65,315,517	7.35 %
Foreign Government Obligations	4.49	18,908,943	2.13
Asset-Backed Securities	5.62	3,521,986	0.40
Commercial Mortgage-Backed Securities	4.88	68,577	0.01
Collateralized Mortgage Obligations	0.01	4,494,269	0.50
Municipal/Provincial Obligations	11.92	23,074,251	2.60
Corporate Bonds	5.84	446,738,749	50.27
Fixed Income Pooled Funds	N/A	290,023,002	32.63
Short-term Investments and Other	N/A	36,534,841	4.11
Total Fixed Income Securities		$ 888,680,135	100.00 %

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	$ 150,859,186	$ 121,424	$ 43,151,984	$ 194,132,594
British Pound Sterling	64,664,605	-	51,458,631	116,123,236
Japanese Yen	106,116,039	-	(5,281,142)	100,834,897
New Zealand Dollar	378,491	-	23,562,938	23,941,429
Hong Kong Dollar	19,981,540	-	6	19,981,546
Swedish Krona	13,903,840	-	2,247,859	16,151,699
Danish Krone	6,854,353	-	-	6,854,353
Indonesian Rupiah	817,172	5,929,307	9,556	6,756,035
South Korean Won	3,337,582	3,038,409	-	6,375,991
Philippine Peso	1,938,041	2,100,570	45,554	4,084,165
Other Currencies	45,241,197	9,686,124	(147,840,610)	(92,913,289)
Total International Securities	$ 414,092,046	$ 20,875,834	$ (32,645,224)	$ 402,322,656

Derivatives

In accordance with the Board's Derivatives Policy, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY11, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded future contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The system is not a dealer, but an end-user of these instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures, interest rate, swaps, foreign currency exchange swaps and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2011, the System held 189 long US Treasury futures contracts with a fair value of $23,861,250 and 502 short US Treasury futures contracts with a fair value of ($69,891,820).

A swap is an agreement in which party commits to pay a fee in exchange for a return linked to the market performance of an underlying security, group of securities, index or other asset. Risks may arise if the counterparty is unable to meet the terms of the contract. Swaps contain market risk resulting from fluctuations in the value of the reference obligation. As of June 30, 2011, the System held a foreign currency swap with a notional value of $83,400,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2011, the System held $211,204,697 buy foreign exchange contracts and ($261,094,085) sell foreign exchange contracts. The unrealized gain on the System's contracts was $2,250,160.

Securities Lending

Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System’s securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System’s loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. On November 21, 2008, the Board began restricting the amount of loans the lending agent could make on its behalf. This restriction was removed on July 23, 2010. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2011, the fair value of securities on loan was $276,123,406. Cash received as collateral and the related liability of $278,648,672 as of June 30, 2011, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $833,495 and $52,666, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2011:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	$ 57,984,905	$ -	$ 59,301,871
Corporate Bonds	89,647,686	-	91,408,796
Equities	124,692,552	-	127,938,005
Lent for Non-Cash Collateral:			
U.S. Government Obligations	269,718	275,454	-
Corporate Bonds	397,385	404,693	-
Equities	3,131,160	3,227,093	-
Total	$ 276,123,406	$ 3,907,240	$ 278,648,672

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2011, there were no funds held by a counterparty that was acting as the System’s agent in securities lending transactions.

Employees' Retirement Savings Plan:

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2011, the fair value of the mutual and commingled investment funds was $182,851,306. The fair value of the investments in international mutual funds was $33,897,672.

Employees' Deferred Compensation Plan:

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2011, the fair value of the mutual and commingled investment funds was $272,313,942. The fair value of the investments in international mutual funds included in the County Plan was $40,484,141.

Retiree Health Benefits Trust:

Section 33-163 of the Code authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the Trust Fund is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the Trust Fund's asset allocation and the investment managers hired by the Board. Section 33-162 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

As of June 30, 2011, the fair value of the mutual and commingled investment funds was $54,073,341. The fair value of the investments in international mutual funds was $17,443,739.

COMPONENT UNITS

HOC:

At year-end, HOC's cash and investments are significant in relation to the total component unit cash and investments. HOC's cash balances as of June 30, 2011, were entirely insured or collateralized with securities held by HOC's agent in HOC's name. HOC's investments are subject to interest rate, credit, and custodial risk as described below:

Interest Rate Risk

HOC's investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund, requires that the majority of HOC's investments must be on a short-term basis (less than one year); however a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multi-Family Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the interest due on the bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

Credit Risk

HOC's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland local government investment pool; Montgomery County investment pool; certificate of deposits and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the fair value and held by a custodian other than the seller. HOC invests in the Montgomery County Local Government Investment Pool (County external investment pool) and the Maryland State Local Government Investment Pool (MLGIP). The MLGIP is not subject to regulatory oversight by the SEC, however the MGLIP is operated pursuant to the annotated code of Maryland.

The Single Family and Multi-Family Bond Funds require that the trustee invest moneys on deposit under the indenture in investment obligations as defined by the respective bond indenture agreements. Investment obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligation issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

Custodial Risk

Amounts held in trust accounts and other demand accounts are covered by federal depository insurance, or collateralized at a level of at least 102% of fair value of principal and accrued interest. Repurchase agreement collateral for the MLGIP is segregated and held in the name of Mercantile-Safe Deposit and Trust's account at the Federal Reserve Bank. The cash and cash equivalents held by PNC Bank for the

General Fund, Housing Opportunity Fund and Public Fund are in bank money market accounts and interest bearing accounts. These amounts are unrated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2011 was P-1.

At June 30, 2011, HOC had the following cash, cash equivalents, investments and maturities:

Cash Equivalents	Fair Value	Rating
Cash Equivalents:		
General Fund:		
Money Market Accounts	17,200,045	N/A
Opportunity Housing Fund:		
Investment in MLGIP	444,925	AAAm
Money Market Accounts	9,654,076	N/A
Public Fund:		
Investment in MLGIP	3,797,699	AAAm
Money Market Accounts	3,002,107	N/A
Multi-Family Fund		
Money Market Accounts	35,089,616	AAA
Single Family Fund - Money Market Accounts	42,732,108	AAA
Total cash equivalents	$ 111,920,576	
Short-term Investments:		
Multi-Family Fund:		
GNMA Pool	775,960	AAA
Freddie Mac	1,608,652	AAA
Single Family Fund		
USG GSE Global Escrow Agreement	31,058,950	N/A
Total short-term investments	$ 33,443,562	

Long-Term Investments	Fair Value	1-5 years	6-10 years	Greater than 10 years	Rating
Long-term Investments:					
Multi-Family Fund:					
U. S. Treasuries	$ 2,462,829	$ -	$ 1,460,390	$ 1,002,439	AAA
Fannie Mae	3,965,926	-	-	3,965,926	AAA
Freddie Mac	1,527,935	-	-	1,527,935	AAA
GNMA Pool	85,153,068	19,698,523	-	65,454,545	AAA
Bank One Investment Agreement	591,525	-	-	591,525	AA/Aa2
Federal Farms	2,674,532	-	-	2,674,532	AAA
Bayerische	17,311,285	17,311,285	-	-	AAA
Single Family Fund:					
Federal Farm Credit Banks	6,071,207	-	-	6,071,207	AAA
Federal Home Loan Banks	7,801,645	-	-	7,801,645	AAA
Freddie Mac	1,502,000	-	-	1,502,000	AAA
Fannie Mae	940,240	-	-	940,240	AAA
U. S. Treasuries	8,717,581	305,876	4,296,236	4,115,469	AAA
Solomon Repurchase Agreement	2,345,800	2,345,800	-	-	A
Tennessee Valley Authority	6,185,376	-	2,599,087	3,586,289	AAA
Total long-term investments	147,250,949	39,661,484	8,355,713	99,233,752	
Cash balances	54,891,197				
Total Cash, Cash Equivalents and Investments	$ 347,506,284				

B) Receivables

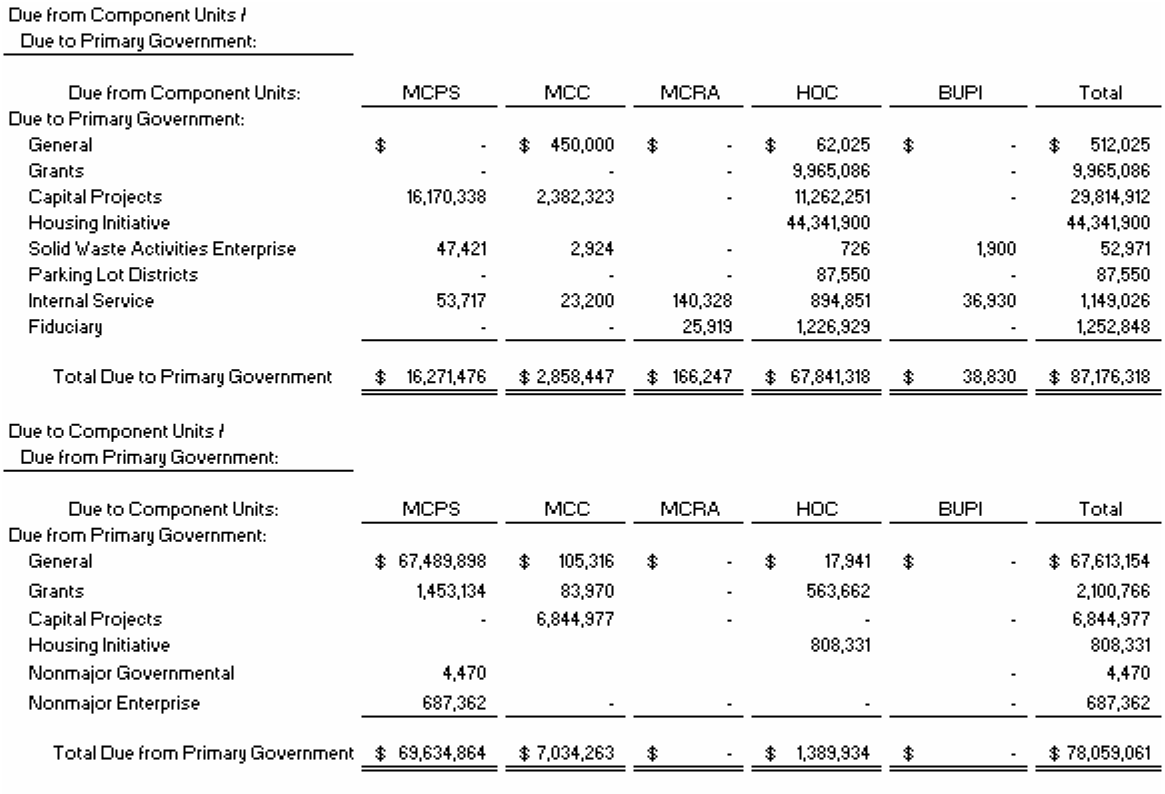
1) Accounts Receivable

The allowance for doubtful accounts at June 30, 2011, reported in the enterprise funds, amounted to:

Liquor	$ 654,680
Parking Lot Districts	1,838,823
	$ 2,493,503

2) Due from/to Component Units

The balances at June 30, 2011, were:



Due from Component Units /
Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	$ -	$ 450,000	$ -	$ 62,025	$ -	$ 512,025
Grants	-	-	-	9,965,086	-	9,965,086
Capital Projects	16,170,338	2,382,323	-	11,262,251	-	29,814,912
Housing Initiative				44,341,900		44,341,900
Solid Waste Activities Enterprise	47,421	2,924	-	726	1,900	52,971
Parking Lot Districts	-	-	-	87,550	-	87,550
Internal Service	53,717	23,200	140,328	894,851	36,930	1,149,026
Fiduciary	-	-	25,919	1,226,929	-	1,252,848
Total Due to Primary Government	$ 16,271,476	$ 2,858,447	$ 166,247	$ 67,841,318	$ 38,830	$ 87,176,318

Due to Component Units /
Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	$ 67,489,898	$ 105,316	$ -	$ 17,941	$ -	$ 67,613,154
Grants	1,453,134	83,970	-	563,662		2,100,766
Capital Projects	-	6,844,977	-	-	-	6,844,977
Housing Initiative				808,331		808,331
Nonmajor Governmental	4,470				-	4,470
Nonmajor Enterprise	687,362	-	-	-	-	687,362
Total Due from Primary Government	$ 69,634,864	$ 7,034,263	$ -	$ 1,389,934	$ -	$ 78,059,061

In the major governmental funds, $44,341,900 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of $1,977,130, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for $1 per year for 83 years. Fund balance has been reserved for the remaining loans.

3) **Due From Other Governments**

The total amount due from other governments at June 30, 2011, was comprised of the following:

	General	Grants	Capital Projects	Solid Waste Activities	Nonmajor Governmental	Internal Service	Fiduciary	Total
Federal government	$ -	$ 28,124,534	$ 40,000	$ 236	$ -	$ 743,760	$ -	$ 28,908,530
State of Maryland	5,161,412	1,457,968	16,411,675	17,474	872,632	69,451	31,105	24,021,717
Other	-	167,000	828,464	120,798	763,211	97,980	7,160	1,984,613
Total	$ 5,161,412	$ 29,749,502	$ 17,280,139	$ 138,508	$ 1,635,843	$ 911,191	$ 38,265	$ 54,914,860

C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities				
Nondepreciable Capital Assets:				
Land	$ 755,440,694	$ 29,398,439	$ -	$ 784,839,133
Construction in progress	466,354,521	204,520,968	32,643,105	638,232,384
Total Nondepreciable Capital Assets	1,221,795,215	233,919,407	32,643,105	1,423,071,517
Depreciable Capital Assets:				
Buildings	757,883,641	354,783	-	758,238,424
Improvements other than buildings	48,939,639	48,500	-	48,988,139
Furniture, fixtures, equipment and machinery	242,038,395	1,638,785	453,075	243,224,105
Leasehold improvements	12,777,902	-	-	12,777,902
Automobiles and trucks	256,430,769	1,240,305	14,599,542	243,071,532
Infrastructure	1,641,680,480	35,812,000	-	1,677,492,480
Other assets	2,079,731	-	-	2,079,731
Total Capital Assets being Depreciated	2,961,830,557	39,094,373	15,052,617	2,985,872,313
Less Accumulated Depreciation for:				
Buildings	304,046,307	19,314,105	-	323,360,412
Improvements other than buildings	19,491,949	1,188,507	-	20,680,456
Furniture, fixtures, equipment and machinery	175,016,408	9,489,129	361,396	184,144,141
Leasehold improvements	4,508,483	810,745	-	5,319,228
Automobiles and trucks	117,280,638	18,738,992	13,920,105	122,099,525
Infrastructure	512,139,932	33,694,122	-	545,834,054
Other assets	2,065,776	8,951	-	2,074,727
Total Accumulated Depreciation	1,134,549,493	83,244,551	14,281,501	1,203,512,543
Total Depreciable Assets, net	1,827,281,064	(44,150,178)	771,115	1,782,359,770
Governmental Activities Capital Assets, net	$ 3,049,076,279	$ 189,769,229	$ 33,414,220	$ 3,205,431,287
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	$ 60,204,889	$ -	$ 34,813	$ 60,170,076
Construction in progress	2,097,425	6,968,064	378,308	8,687,181
Total Nondepreciable Capital Assets	62,302,314	6,968,064	413,121	68,857,257
Depreciable Capital Assets:				
Buildings	247,860,396	-	-	247,860,396
Improvements other than buildings	146,368,491	-	23,444	146,345,047
Furniture, fixtures, equipment and machinery	21,817,519	2,811,284	1,468,127	23,160,676
Infrastructure	14,351	-	-	14,351
Automobiles and trucks	4,411,030	-	99,415	4,311,615
Total Capital Assets being Depreciated	420,471,787	2,811,284	1,590,986	421,692,085
Less Accumulated Depreciation for:				
Buildings	103,410,205	8,944,245	-	112,354,450
Improvements other than buildings	107,642,097	4,206,296	-	111,848,393
Furniture, fixtures, equipment and machinery	14,654,830	1,702,302	1,468,127	14,889,005
Infrastructure	2,152	622	-	2,774
Automobiles and trucks	3,056,930	235,308	79,923	3,212,315
Total Accumulated Depreciation	228,766,214	15,088,773	1,548,050	242,306,937
Total Depreciable Assets, net	191,705,573	(12,277,489)	42,936	179,385,148
Business-Type Activities Capital Assets, net	$ 254,007,887	$ (5,309,425)	$ 456,057	$ 248,242,405

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:	
General government	$ 6,303,325
Public safety	15,168,466
Public works and transportation	51,843,091
Health and human services	1,535,752
Culture and recreation	7,187,321
Community development and housing	999,868
Environment	206,728
Total depreciation expense-governmental activities	$ 83,244,551

Business-type activities:	
Liquor	$ 1,633,972
Solid waste activities	2,405,883
Parking lot districts	10,902,731
Permitting services	138,257
Community use of public facilities	7,930
Total depreciation expense-business-type activities	$ 15,088,773

Construction commitments as of June 30, 2011, are as follows:

	Construction Commitments
General Government	$ 255,338,779
Public Safey	184,510
Public Works and Transportaion	76,015,766
Culture & Recreation	3,333,796
Community Development & Housing	134,295
Environment	10,718,957
Total	$ 345,726,103

COMPONENT UNITS

Capital assets of MCPS, amounting to $2,099,007,364 at June 30, 2011, are significant in relation to the total component unit capital assets.

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities				
Nondepreciable capital assets:				
Land	$ 70,222,101	$ 4,456,100	$ -	$ 74,678,201
Construction in progress	90,485,660	158,007,484	106,714,436	141,778,708
Total nondepreciable capital assets	160,707,761	162,463,584	106,714,436	216,456,909
Depreciable capital assets:				
Buildings and improvements	2,346,375,451	103,098,257	16,811,423	2,432,662,285
Site improvements	207,411,841	9,364,962	-	216,776,803
Vehicles and equipment	146,663,373	12,526,938	10,291,723	148,898,588
Total depreciable capital assets	2,700,450,665	124,990,157	27,103,146	2,798,337,676
Less accumulated depreciation for:				
Buildings and improvements	731,517,259	57,520,207	13,212,647	775,824,819
Site improvements	42,480,449	4,323,186	-	46,803,635
Vehicles and equipment	94,613,230	12,029,888	9,591,030	97,052,088
Total accumulated depreciation	868,610,938	73,873,281	22,803,677	919,680,542
Total depreciable capital assets, net	1,831,839,727	51,116,876	4,299,469	1,878,657,134
Government activities capital assets, net	$ 1,992,547,488	$ 213,580,460	$ 111,013,905	2,095,114,043
Business-Type Activities				
Depreciable capital assets:				
Vehicles and equipment	$ 16,954,438	$ 767,571	$ 348,627	$ 17,373,382
Total depreciable capital assets	16,954,438	767,571	348,627	17,373,382
Less accumulated depreciation for:				
Vehicles and equipment	12,794,050	977,855	291,844	13,480,061
Total accumulated depreciation	12,794,050	977,855	291,844	13,480,061
Business-type activities capital assets, net	$ 4,160,388	$ (210,284)	$ 56,783	3,893,321
Total MCPS government-wide capital assets				$ 2,099,007,364

Depreciation expense of MCPS was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	$ 62,164,168
Special education	211,681
School administration	33,638
Student personnel services	798
Student transportation	8,984,310
Operation of plant	146,827
Maintenance of plant	1,614,745
Administration	717,114
Total depreciation expense-governmental activities	$ 73,873,281
Business-type activities:	
Food services	$ 976,372
Real estate management	1,483
Total depreciation expense-business type activities	$ 977,855

Commitments for ongoing construction in progress at June 30, 2011, were $136,501,022.

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2011, is as follows:

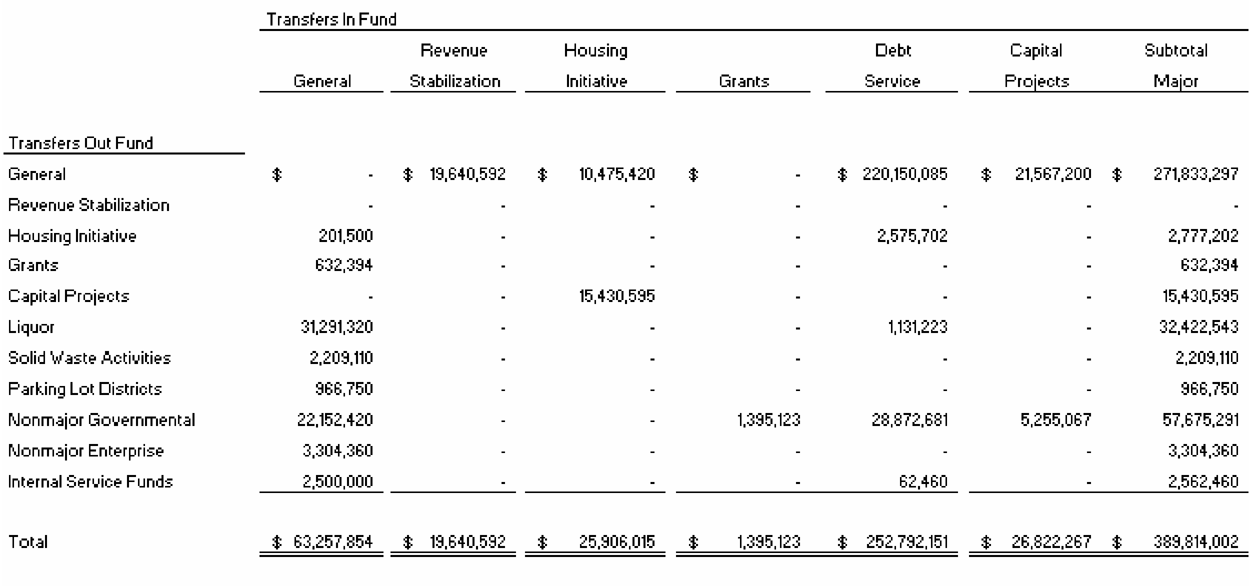
	Due From Fund				
Due To Fund	General	Nonmajor Governmental	Internal Service	Fiduciary	Total
General	$ -	$ 250,000	$ 5,547,001	$ 8,096,057	$ 13,893,058
Montgomery Housing Initiative	-	-	9,047	11,356	20,403
Grants	16,100,000	-	430,711	344,441	16,875,152
Capital Projects	82,951,197	-	143,228	223,994	83,318,419
Liquor	-	-	233,793	180,127	413,920
Solid Waste Activities	-	-	97,792	90,926	188,718
Parking Lot Districts	-	-	34,315	39,288	73,603
Nonmajor Governmental	3,725,000	1,395,123	2,003,812	2,698,515	9,822,450
Nonmajor Enterprise	605,000	-	177,736	263,795	1,046,531
Internal Service	2,584,900	-	232,708	4,706,404	7,524,012
Fiduciary	-	-	13,741	11,449	25,190
Total	$ 105,966,097	$ 1,645,123	$ 8,923,884	$ 16,666,352	$ 133,201,456

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY12:

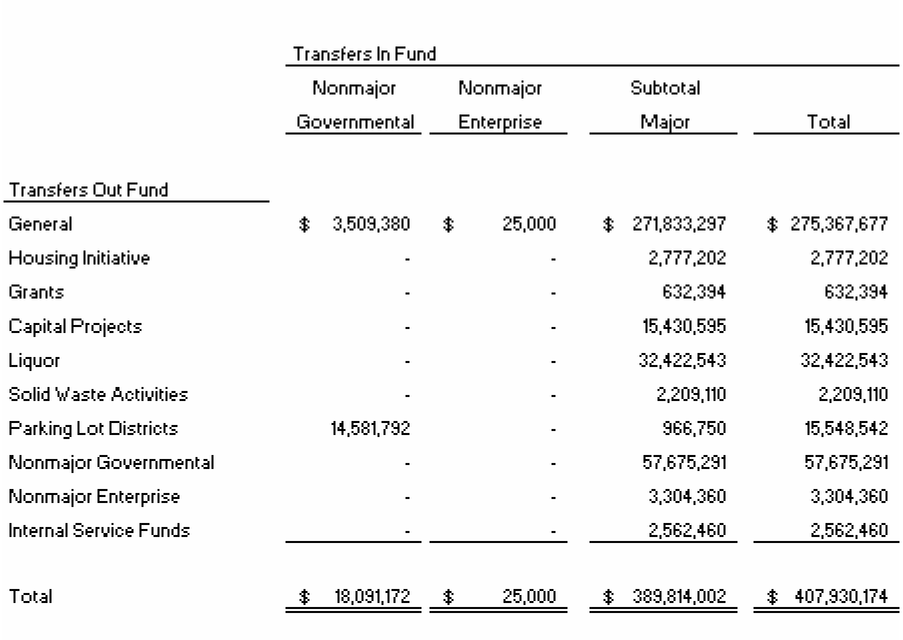
- $51.8 million to the Capital Projects Fund to cover construction payments, due primarily to the timing of reimbursements from Federal, State and other agencies, and to lag time between programming and collection of certain impact taxes.

Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, and (4) payroll accrual charges to fiduciary funds.

Interfund transfers for the year ended June 30, 2011, consisted of the following:



	Transfers In Fund						
Transfers Out Fund	General	Revenue Stabilization	Housing Initiative	Grants	Debt Service	Capital Projects	Subtotal Major
General	$ -	$ 19,640,592	$ 10,475,420	$ -	$ 220,150,085	$ 21,567,200	$ 271,833,297
Revenue Stabilization	-	-	-	-	-	-	-
Housing Initiative	201,500	-	-	-	2,575,702	-	2,777,202
Grants	632,394	-	-	-	-	-	632,394
Capital Projects	-	-	15,430,595	-	-	-	15,430,595
Liquor	31,291,320	-	-	-	1,131,223	-	32,422,543
Solid Waste Activities	2,209,110	-	-	-	-	-	2,209,110
Parking Lot Districts	966,750	-	-	-	-	-	966,750
Nonmajor Governmental	22,152,420	-	-	1,395,123	28,872,681	5,255,067	57,675,291
Nonmajor Enterprise	3,304,360	-	-	-	-	-	3,304,360
Internal Service Funds	2,500,000	-	-	-	62,460	-	2,562,460
Total	$ 63,257,854	$ 19,640,592	$ 25,906,015	$ 1,395,123	$ 252,792,151	$ 26,822,267	$ 389,814,002



	Transfers In Fund			
Transfers Out Fund	Nonmajor Governmental	Nonmajor Enterprise	Subtotal Major	Total
General	$ 3,509,380	$ 25,000	$ 271,833,297	$ 275,367,677
Housing Initiative	-	-	2,777,202	2,777,202
Grants	-	-	632,394	632,394
Capital Projects	-	-	15,430,595	15,430,595
Liquor	-	-	32,422,543	32,422,543
Solid Waste Activities	-	-	2,209,110	2,209,110
Parking Lot Districts	14,581,792	-	966,750	15,548,542
Nonmajor Governmental	-	-	57,675,291	57,675,291
Nonmajor Enterprise	-	-	3,304,360	3,304,360
Internal Service Funds	-	-	2,562,460	2,562,460
Total	$ 18,091,172	$ 25,000	$ 389,814,002	$ 407,930,174

Primary activities include:

- Transfers from major and non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipts and pay-go from the General Fund to the Capital Projects Fund; and
- Transfer of Liquor Enterprise Fund profits to the General Fund.

E) Leases

1) Operating Leases

The County leases buildings and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately $20,418,000 for FY11. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30	
2012	$ 24,477,000
2013	19,850,000
2014	17,163,000
2015	11,395,000
2016	8,983,000
2017 - 2021	35,759,000
2022 - 2026	6,473,000
Total	$ 124,100,000

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds and 2004 Lease Revenue Bonds (See Note III-F7), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. Separate lease agreements were executed in conjunction with each bond issue. The leases associated with the 2002 and 2004 bond issues have original terms of 22 years and 20 years, respectively, both ending on June 1, 2024.

The composition of the capital lease receivable is as follows:

	Shady Grove	Grosvenor	Total
Minimum lease payments receivable	$ 21,645,843	$ 21,280,572	$ 42,926,415
Unearned lease income	(5,732,534)	(5,643,881)	(11,376,415)
Net investment in direct financing leases	$ 15,913,309	$ 15,636,691	$ 31,550,000

At June 30, 2011, the minimum future lease payments due under the direct financing capital lease agreements are as follows:

Fiscal Year Ending June 30	
2012	$ 3,296,303
2013	3,300,252
2014	3,300,640
2015	3,307,115
2016	3,307,735
2017-2021	16,638,635
2022-2024	9,775,735
Total minimum lease payments	$ 42,926,415

3) Capital Lease Obligations

The County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates of the leases.

The assets acquired and placed in service through MCRA capital leases are as follows:

Land	$ 13,449,033
Land improvements	1,673,621
Buildings	53,783,181
Furniture, fixtures, equipment and machinery	159,291
Subtotal	69,065,126
Less accumulated depreciation	(24,612,372)
Total asset value under capital leases	$ 44,452,754

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	
2012	$ 4,862,605
2013	3,955,329
2014	3,465,929
2015	3,466,146
2016	3,473,586
2017-2021	11,125,092
2022-2023	1,990,900
Total minimum lease payments	32,339,587
Less: amount representing interest	(6,834,585)
Present value of minimum lease payments	$ 25,505,002

Included in the schedules above are amounts relating to the Montgomery County Conference Center, which was opened during FY05. The Maryland Stadium Authority (MSA) also participated in financing the construction through the issuance of long-term debt. The County recognized the MSA contribution of $19,719,328 as revenue when the Conference Center opened. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term.

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law, and is offset by a capital contribution. For government-wide financial statement purposes, the capital lease obligation in the governmental activities and capital asset in the business-type activities are offset by transfers out and transfers in, respectively, since any amounts that ultimately may be repaid by the SSPLD are not expected to be repaid within a reasonable time.

The assets acquired through this capital lease are as follows:

	Town Square	Wayne Avenue	Total
Buildings	$ 30,492,462	$ 29,700,233	$ 60,192,695
Less accumulated depreciation	(7,199,609)	(7,095,056)	(14,294,665)
Total asset value under capital leases	$ 23,292,853	$ 22,605,177	$ 45,898,030

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Town Square	Wayne Ave	Total
2012	$ 2,469,739	$ 3,084,425	$ 5,554,164
2013	2,461,668	3,113,219	5,574,887
2014	2,451,012	3,110,394	5,561,406
2015	2,451,021	3,112,856	5,563,877
2016	2,444,668	3,093,363	5,538,031
2017	2,442,177	3,094,143	5,536,320
Total minimum lease payments	14,720,285	18,608,400	33,328,685
Less: amount representing interest	(1,885,285)	(2,613,400)	(4,498,685)
Less: amount not drawn for leased facility	$ -	(1,810,729)	(1,810,729)
Present value of minimum lease payments	$ 12,835,000	$ 14,184,271	$ 27,019,271

The County has entered into a lease agreement in the amount of $22.6 million to finance the acquisition and implementation of new software systems - the County's 311 constituent resource management system, ERP financial management system, and the MCtime - timecard management system. The lease agreement represents proportionate interests in a funding agreement between the County and Chase Equipment Finance, Inc.

The following is a schedule by fiscal year for the debt service requirement at June 30, 2011:

Fiscal Year Ending June 30	
2012	$ 3,631,087
2013	3,631,087
2014	3,631,086
2015	3,631,088
2016	3,631,088
2017	1,815,543
Total minimum lease payments	19,970,979
Less: amount representing interest	(1,820,359)
Present value of minimum lease payments	$ 18,150,620

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MCC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and expenditures, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, is reflected as Reserved Fund Balance of the Capital Projects Fund.

General obligation bond issues outstanding as of June 30, 2011, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2011	Unamortized Premium **	Unamortized Deferred Difference	Carrying Value June 30, 2011
11/15/01 *	2003-19	3.6 - 5.25	$ 146,375,000	$ 102,010,000	$ 2,014,471	$ (2,580,618)	$ 101,443,853
02/01/02	2003-22	3.0 - 5.0	160,000,000	16,000,000	228,928	-	16,228,928
11/15/02 *	2005-13	2.75 - 5.25	93,595,000	33,580,000	574,493	(434,305)	33,720,188
05/01/03	2004-23	1.5 - 4.0	155,000,000	77,500,000	460,808	-	77,960,808
05/01/03*	2004-11	2.0 - 5.0	49,505,000	3,515,000	-	-	3,515,000
03/15/04	2005-24	3.0 - 5.0	154,600,000	77,300,000	3,660,929	-	80,960,929
08/15/04*	2008-17	3.0 - 5.25	97,690,000	87,070,000	2,352,773	(2,880,441)	86,542,332
05/15/05	2006-25	4.0 - 5.0	200,000,000	100,000,000	6,046,679	-	106,046,679
06/01/05*	2005-16	3.781	120,355,000	120,355,000	7,569,379	(6,213,713)	121,710,666
05/01/06	2006-17	3.871	100,000,000	50,000,000	1,405,373	-	51,405,373
06/07/06	2017-26	Variable	100,000,000	100,000,000	-	-	100,000,000
05/01/07	2007-27	4.082	250,000,000	150,000,000	10,090,367	-	160,090,367
3/12/08*	2009-15	2.750 - 5.0	70,295,000	32,115,000	1,046,169	(459,321)	32,701,848
07/15/08	2009-29	3.0 - 5.0	250,000,000	225,000,000	5,872,468	-	230,872,468
11/03/09*	2011-20	2.0 - 5.0	161,755,000	161,755,000	17,014,423	(9,287,270)	169,482,153
11/03/09	2015-29	3.75 - 5.5	232,000,000	232,000,000	1,619,733	-	233,619,733
11/17/09	2010-14	2.0 - 5.0	78,000,000	62,400,000	3,800,149	-	66,200,149
07/26/10	2011-22	2.0 - 5.0	195,000,000	195,000,000	22,693,320	-	217,693,320
07/26/10	2023-30	4.75 - 5.4	106,320,000	106,320,000	199,070	-	106,519,070
07/26/10	2023-30	4.75 - 5.4	23,680,000	23,680,000	44,338	-	23,724,338
Total			$2,744,170,000	$1,955,600,000	$86,693,870	$ (21,855,668)	$ 2,020,438,202

* Issue represents refunding bonds.

** GAAP require amortization of premiums and issue costs to occur prospectively, beginning with the year of GASB-34 implementation. As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY11 are as follows:

	Balance July 1, 2010	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 2011
Governmental Activities:					
General County	$ 244,207,654	$ 86,780,000	$ 21,007,253	$ -	$ 309,980,401
Roads and Storm Drainage	368,244,452	66,600,000	33,606,359	-	401,238,093
Parks	56,791,205	9,500,000	5,305,351	-	60,985,854
Public Schools	838,635,316	99,100,000	68,853,524	-	868,881,792
Community College	84,867,155	42,020,000	5,900,783	-	120,986,372
Consolidated Fire Tax District	35,367,670	19,000,000	3,367,222	-	51,000,448
Mass Transit	41,714,229	2,000,000	1,187,189	-	42,527,040
Public Housing	11,604	-	11,604	-	-
	$1,669,839,285	$325,000,000	$139,239,285	$ -	$1,855,600,000

General obligation bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
2012	$ 157,265,000	$ 86,255,698	$ 243,520,698
2013	154,035,000	79,312,291	233,347,291
2014	148,080,000	71,442,173	219,522,173
2015	143,415,000	63,897,929	207,312,929
2016	138,220,000	56,966,241	195,186,241
2017-2021	601,485,000	198,316,174	799,801,174
2022-2026	419,970,000	93,338,441	513,308,441
2027-2030	193,130,000	20,777,205	213,907,205
Total	$ 1,955,600,000	$ 670,306,152	$ 2,625,906,152

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6 percent of the assessable base of real property and 15 percent of the assessable base of personal property and operating real property. The legal debt margin as of June 30, 2011 is $8,190,276,345.

General obligation bonds authorized and unissued as of June 30, 2011, are as follows:

	Authority			Amount
Purpose	Chapter	Act	Amount	Unissued
General County, Parks, and	43	2006	$ 92,000,000	$ 10,390,000
Consolidated Fire Tax District	12	2007	51,300,000	51,300,000
	36	2008	68,200,000	68,200,000
	22	2009	58,700,000	58,700,000
	54	2010	341,600,000	341,600,000
			611,800,000	530,190,000
Roads and Storm Drainage	12	2007	45,800,000	20,940,000
	36	2008	36,000,000	36,000,000
	22	2009	64,600,000	64,600,000
	54	2010	192,000,000	192,000,000
			338,400,000	313,540,000
Public Schools and	36	2008	222,500,000	95,768,000
Community College	22	2009	272,500,000	272,500,000
	54	2010	108,700,000	108,700,000
			603,700,000	476,968,000
Mass Transit	22	2009	57,100,000	31,005,000
	54	2010	32,600,000	32,600,000
			89,700,000	63,605,000
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	855,000	855,000
	22	2009	1,000,000	1,000,000
	54	2010	46,400,000	46,400,000
			53,030,000	52,970,000
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	1,220,000	1,220,000
			4,165,000	3,265,000
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	1,050,000	1,050,000
			9,150,000	4,865,000
Total Parking Districts			13,315,000	8,130,000
Total General Obligation Bonds			$ 1,709,945,000	$ 1,445,403,000

Bond authority and related amounts unissued, presented above, include amounts related to variable rate demand obligations (see Note III-F2). In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

2) <u>Variable Rate Demand Obligations</u>

On June 7, 2006, the County for the first time issued variable rate demand obligations (VRDOs), in the amount of $100 million. These obligations will not mature in total until 2026; however, the County is required by the Note Order to make annual sinking fund payments to retire one-tenth of the notes each year beginning in 2017.

The interest rate on the obligations, which re-sets daily, is established by the remarketing agents, and is payable on the first business day of each month. Other potential modes for the obligations include a Weekly Mode, a Commercial Paper Mode, a Term Rate Mode or a Fixed Rate Mode. Subject to certain terms and conditions in the Note Order, the County may effect a change in Mode with respect to the obligations. The obligations are subject to optional tender and purchase on the demand of the owners thereof, upon certain terms. All such obligations are general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County is irrevocably pledged.

In connection with the VRDOs, the County entered into a Standby Note Purchase Agreement on June 7, 2006, with Dexia Credit Local, acting through its New York Branch, which expired on June 7, 2011. On May 25, 2011, the County replaced the existing Standby Note Purchase Agreement with a Standby Note Purchase Agreement issued by Wells Fargo Bank, National Association which will expire on July 15, 2014. The Wells Fargo Note Purchase Agreement requires Wells Fargo to provide funds for the purchase of VRDOs that have been tendered and not remarketed pursuant to such agreement. Because the County entered into a financing agreement that ensures the VRDOs can be refinanced on a long-term basis, these obligations are classified as noncurrent liabilities at year-end.

VRDOs outstanding as of June 30, 2011, are as follows:

Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2011
06/07/06	2017-26	Variable	$ 50,000,000	$ 50,000,000
06/07/06	2017-26	Variable	50,000,000	50,000,000
Total			$ 100,000,000	$ 100,000,000

For budget and bond authority purposes, VRDO activity is reported with general obligation bonds.

Changes in VRDOs during FY11 are as follows:

	Balance July 1, 2010	VRDOs Issued	VRDOs Retired	Balance June 30, 2011
Governmental Activities:				
General County	$ 2,500,000	$ -	$ -	$ 2,500,000
Roads and Storm Drainage	26,000,000	-	-	26,000,000
Parks	1,000,000	-	-	1,000,000
Public Schools	64,000,000	-	-	64,000,000
Community College	4,000,000	-	-	4,000,000
Consolidated Fire Tax District	2,100,000	-	-	2,100,000
Mass Transit	400,000	-	-	400,000
Total	$100,000,000	$ -	$ -	$100,000,000

VRDO requirements to maturity are as follows:

Fiscal Year Ending June 30	Variable Rate Demand Obligation Requirements		
	Principal	Interest*	Total
2012	$ -	$ 600,000	$ 600,000
2013	-	600,000	600,000
2014	-	600,000	600,000
2015	-	600,000	600,000
2016	-	600,000	600,000
2017-2021	50,000,000	2,400,000	52,400,000
2022-2026	50,000,000	900,000	50,900,000
Total	$ 100,000,000	$ 6,300,000	$ 106,300,000

* Includes interest on VRDOs at estimated rates of .600 percent for Series A and .600 percent for series B respectively, for the June 7, 2006 issue; the interest rate on the notes is calculated daily and due monthly. The estimated rates used for this calculation were based on the rates at year-end.

3) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to finance specific projects such as parking garages for the Bethesda and Silver Spring Parking Lot Districts and Solid Waste facilities. Net revenues of Bethesda and Silver Spring Parking Lot Districts including parking fees, fines and dedicated property taxes and net revenues of the Solid Waste Disposal fund are pledged against the timely repayment of principal and interest of the outstanding revenue bonds of the respective funds.

In May 2009 and in 2011, the County issued $46.8 million and $34.6 million of revenue bonds respectively, secured by Department of Liquor Control revenues. The proceeds were used to purchase and to renovate a warehouse facility for the Department, as well as to fund the County’s share of an interchange at the intersection of Maryland Route 355 (Rockville Pike) and Montrose Parkway West. On April 28, 2011, the County issued an additional $34,360,000 to supplement these projects.

The term of the commitments and approximate amounts of the pledged revenues are as follows:

	Terms of Commitment	Approximate Amount of Pledge
Bethesda Parking Lot District	15	$ 39,223,644
Solid Waste Disposal Fund	2	6,828,000
Liquor Control	19	119,765,205
Total		$ 165,816,849

The pledged net revenues recognized during FY11 for the payment of the outstanding principal and interest of the revenue bonds are as follows:

	Net Available Revenue for Debt Service	Debt Service		
		Principal	Interest	Total
Parking Lot District:				
Bethesda Parking Lot District	$ 11,388,501	$ 1,915,000	$ 1,355,235	$ 3,270,235
Silver Spring Parking Lot District	8,104,051	-	-	-
Solid Waste Disposal Fund:	7,929,829	3,550,000	460,750	4,010,750
Liquor Control Fund:	30,064,329	1,550,000	2,108,248	3,658,248

Revenue bond issues outstanding as of June 30, 2011, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2011	Unamortized Premium/ (Discount)	Unamortized Deferred Difference	Carrying Value June 30, 2011
Parking Revenue								
Bethesda Parking Lot District 2002A	06/01/02	2003-21	3.00 - 4.75	$ 26,000,000	$ 16,165,000	$ (8,852)	$ -	$ 16,156,148
Bethesda Parking Lot District 2005A	08/31/05	2007-25	3.62 - 5.00	16,495,000	14,000,000	72,996	-	14,072,996
Solid Waste Refunding 2003A	04/03/03	2004-13	3.00 - 5.00	31,075,000	6,375,000	66,124	(72,392)	6,368,732
Liquor Control Revenue 2009:								
Liquor Control & Transportation 2009	05/12/09	2010-29	3.00 - 5.00	46,765,000	43,470,000	2,393,030	-	45,863,030
Liquor Control & Transportation 2011	04/28/11	2012-31	2.00 - 5.00	34,360,000	34,360,000	1,652,935	-	36,012,935
Total				$154,695,000	$114,370,000	$ 4,176,233	$ (72,392)	$ 118,473,841

Changes in revenue bond principal during FY11 are as follows:

	Balance July 1, 2010	Bonds Issued	Bonds Retired	Balance June 30, 2011
Bethesda Parking Lot District	$32,080,000	$ -	$1,915,000	$ 30,165,000
Solid Waste Disposal	9,925,000	-	3,550,000	6,375,000
Liquor Control	45,020,000	34,360,000	1,550,000	77,830,000
Total	$87,025,000	$34,360,000	$7,015,000	$ 114,370,000

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District Principal	Bethesda Parking Lot District Interest	Liquor Control Principal	Liquor Control Interest
2012	$ 1,995,000	$ 1,278,135	$ 2,825,000	$ 3,530,455
2013	2,085,000	1,194,010	2,790,000	3,561,750
2014	2,180,000	1,105,025	2,915,000	3,438,950
2015	2,275,000	1,013,663	3,055,000	3,295,200
2016	2,375,000	918,003	3,215,000	3,142,450
2017-2021	13,625,000	2,947,173	18,330,000	13,446,450
2022-2026	5,630,000	602,635	23,030,000	8,736,800
2027-2031	-	-	21,670,000	2,783,150
Total	$ 30,165,000	$ 9,058,644	$ 77,830,000	$ 41,935,205

Fiscal Year Ending June 30	Solid Waste Disposal Principal	Solid Waste Disposal Interest	Total Revenue Bond Requirements Principal	Total Revenue Bond Requirements Interest	Total Revenue Bond Requirements Total
2012	$ 3,690,000	$ 318,750	$ 8,510,000	$ 5,127,340	$ 13,637,340
2013	2,685,000	134,250	7,560,000	4,890,010	12,450,010
2014	-	-	5,095,000	4,543,975	9,638,975
2015	-	-	5,330,000	4,308,863	9,638,863
2016	-	-	5,590,000	4,060,453	9,650,453
2017-2021	-	-	31,955,000	16,393,623	48,348,623
2022-2026	-	-	28,660,000	9,339,435	37,999,435
2027-2031	-	-	21,670,000	2,783,150	24,453,150
Total	$ 6,375,000	$ 453,000	$ 114,370,000	$ 51,446,849	$ 165,816,849

Revenue bonds authorized and unissued as of June 30, 2011, are as follows:

Purpose	Resolution Number	Year	Amount Authorized	Amount Unissued
Parking Lot Districts	11-1383	1989	$ 51,163,000	$ 25,593,000
Parking Lot Districts	14-921	2001	35,000,000	9,000,000
Solid Waste Disposal	12-1010	1993	56,935,000	6,255,000
Public Housing	16-675	2008	50,000,000	50,000,000
Liquor & Transportation	16-863	2009	60,000,000	56,875,000
Total			$ 253,098,000	$ 147,723,000

Restricted assets related to these revenue bonds, classified as “Investments” or “Equity in Pooled Cash and Investments” for statement of net asset purposes, include the following:

Purpose	Bethesda Parking Lot District	Silver Spring Parking Lot District	Solid Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	$1,459,918	$1,920,410	$ -
Debt Service Account - Used to pay debt service on bonds	273,911	-	-
Debt Service Reserve Account - (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available	1,652,754	-	4,382,960
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	1,500,000	1,500,000	3,894,265
Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months	-	-	24,149,860
Rate Stabilization Account - In case of short-term extraordinary expenses	-	-	1,897,710
Total	$4,886,583	$3,420,410	$ 34,324,795

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

4) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY11 are as follows:

	Balance July 1, 2010	BANs Issued	BANs Retired	Balance June 30, 2011
BAN Series 2002-M	$ 117,000,000	$ -	$ 117,000,000	$ -
BAN Series 2002-N	68,000,000	-	68,000,000	-
BAN Series 2002-P	115,000,000	-	15,000,000	100,000,000
BAN Series 2009-A	125,000,000	-	125,000,000	-
BAN Series 2010- Series 2010	-	200,000,000	-	200,000,000
BAN Series 2010- Series 2009	-	125,000,000	-	125,000,000
BAN Series 2010- Series 2010	-	75,000,000	-	75,000,000
Total	$ 425,000,000	$ 400,000,000	$ 325,000,000	$ 500,000,000

Interest earned on BAN proceeds totaling $130,638 was accounted for in the Debt Service Fund. During FY11 interest rates varied from .150 to .400 percent.

BANs totaling $400 million were issued during FY11; $200 million Series 2010 and $200 million Series 2009 respectively, at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002 and was amended on July 16, 2002, July 29, 2003, July, 27, 2004, July 26, 2005, November 30, 2006, September 18, 2007, October 28, 2008, September 15, 2009, and November 30, 2010 to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and continues to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY12, and intends to use the proceeds to replace short-term notes that were issued to fund capital construction and improvements. In connection with the BANs, utilizing a competitive request for proposals process the County entered into credit agreements provided by State Street Bank and PNC Bank to borrow up to $300,000,000. These Agreements are each $150,000,000 and are for three-year terms; to expire on July 31, 2013. The county entered into a Credit Agreement with JPMorgan Chase to provide liquidity with respect to the 2009 Series Notes. Under the terms of the 2009 Credit agreement, the County may borrow up to $200,000,000 plus interest not to exceed 34 days interest at 10% per annum calculated on the basis of 365-day year on a revolving principal and interest; the credit agreement expires on August 24, 2012.

During FY11, the County passed Resolution No. 16-1567 dated November 23, 2010 to increase the County's authority to issue BANS by $721.3 million. Cumulative BANs authorized and unissued as of June 30, 2011, including amounts authorized and unissued from prior years, is $930,003,000.

5) Certificates of Participation

In April 2010, the County issued Certificates of Participation (certificates) for Equipment Acquisition in the public transportation Program dated April 7, 2010, in the amount of $23.0 million. In October 2007, the County issued certificates for its Equipment Acquisition in the fire and rescue Program dated October 24, 2007, in the amount of $33.58 million. The certificates represent proportionate interest in a Conditional Purchase Agreement (CPA) between the County, as purchaser and U.S. Bank National Association, as the seller. The CPA requires the County, as purchaser; to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing powers of the County.

The Certificates were issued at interest rates ranging from 2.4 to 5.0 percent and have maturity schedules as follows:

Fiscal Year Ending June 30	Certificates of Participation		
	Principal	Interest	Total
2012	$ 6,515,000	$ 1,742,925	$ 8,257,925
2013	6,745,000	1,475,000	8,220,000
2014	6,370,000	1,212,600	7,582,600
2015	6,620,000	923,600	7,543,600
2016	6,885,000	640,000	7,525,000
2017 - 2018	10,800,000	434,900	11,234,900
Total	$ 43,935,000	$ 6,429,025	$ 50,364,025

6) Master Lease/Equipment Notes

The County has entered into purchase agreements to provide financing for the acquisition of capital asset equipment. The agreements have terms of two to five years with interest rates identified in the agreements. Arrangements provide that proceeds are to be held by a trustee and disbursed to vendors. If assets are acquired prior to the note agreement, the trustee reimburses the County. The following is a schedule by fiscal year for the agreements as of June 30, 2011:

Fiscal Year Ending June 30	Equipment Notes Requirements Principal	Interest	Total
2012	$ 1,511,231	$ 126,088	$ 1,637,319
2013	1,083,777	85,161	1,168,938
2014	913,610	56,853	970,463
2015	871,941	30,550	902,491
2016	418,202	6,890	425,092
2017-2018	30,131	1,192	31,323
Total	$ 4,828,892	$ 306,734	$ 5,135,626

7) WSSC Promissory Note

In April 2007, the County entered into a Purchase and Sale Contract with Washington Suburban Sanitary Commission (WSSC) to acquire property for $10,000,000. On January 15, 2009, the County signed a promissory note evidencing its obligation to fulfill the terms of the Contract. The note has a term of 15 years; interest accrues at a rate of 4.43%, commencing six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by the County is $400,000 and is due on July 15 each year. The County must make additional payments equal to the net of proceeds of parcels sold in a given year; payments should be allocated first to interest and then to principal. If in a given year, net proceeds for the sale of parcels equal or exceed the debt service payment, the County will not be required to make a separate debt service payment. The minimum annual loan payment is less than the interest accrued during the fiscal period; the difference between the interest and the debt service paid is added to the total principal amount owed. Consequently, a negative balance is shown on the principal column of the amortization schedule.

The note will mature upon its 15th anniversary when all unpaid principal and accrued interest shall be due and payable by the County or upon the date of the "Payment Event" for the last parcel for which an additional annual payment is due to WSSC.

The following is a schedule by fiscal year for the debt service requirement at 06/30/2011:

Fiscal Year Ending June 30	Promissory Note Requirements Principal	Interest	Total
2012	$ (26,400)	$ 426,400	$ 400,000
2013	(27,569)	427,569	400,000
2014	(28,791)	428,791	400,000
2015	(30,066)	430,066	400,000
2016	(31,398)	431,398	400,000
2017 - 2021	(179,130)	2,179,130	2,000,000
2022 - 2025	9,948,634	1,550,865	11,499,499
Total	$ 9,625,280	$ 5,874,219	$ 15,499,499

8) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of $37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority (WMATA). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. The approximate amount of the pledge is $42,926,415. WMATA's obligation to make payments under the leases is payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund of $3,343,109, included in Debt Service Fund cash with fiscal agents in the accompanying financial statements, is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

The County issued $4,745,000 in lease revenue bonds (Metrorail Garage Projects) on September 1, 2004. The bonds were issued due to certain cost increases incurred since the issuance of the Series 2002 Bonds. The County needed an additional $2,100,000 to complete construction of the Shady Grove Metro Garage and an additional $2,110,000 to complete construction of the Grosvenor Metro Garage. The Series 2004 bonds were delivered on September 28, 2004. The lease has a term of 20 years ending in June 1, 2024. In FY11, pledged revenue of $3,292,009 equals the principal and interest on the lease revenue bonds.

Lease revenue bonds outstanding as of June 30, 2011, are as follows:

	Dated Date	Maturity	Interest Rate	Originally Issued	Balance June 30, 2011	Unamortized Premium	Carrying Value June 30, 2011
Lease Revenue Bonds	06/01/02	2005-24	4.6064%	$37,880,000	$28,110,000	$ 63,640	$28,173,640
Lease Revenue Bonds	09/01/04	2005-24	3.7908%	4,745,000	3,440,000	12,083	3,452,083
Total				$42,625,000	$31,550,000	$ 75,723	$31,625,723

Lease revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Lease Revenue Bond Requirements Principal	Interest	Total
2012	$ 1,845,000	$ 1,451,303	$ 3,296,303
2013	1,925,000	1,375,252	3,300,252
2014	2,005,000	1,295,640	3,300,640
2015	2,095,000	1,212,115	3,307,115
2016	2,185,000	1,122,735	3,307,735
2017-2021	12,595,000	4,043,635	16,638,635
2022-2024	8,900,000	875,735	9,775,735
Total	$ 31,550,000	$ 11,376,415	$ 42,926,415

9) Taxable Limited Obligation Certificates

In April 2010, the County issued Taxable Limited Obligation Certificates, dated April 6, 2010, in the amount of $30.4 million to finance the Montgomery Housing Initiative Program to promote a broad range of housing opportunities in the County. The certificates represent proportionate interests in a Funding Agreement between the County and U.S. Bank National Association; the Certificates, and the interest on them, are limited obligations of the County. The principal or redemption price of and interest on the Certificates shall be payable solely from the Contract Payments and other funds pledged for the payment thereof under the Trust Agreement. The Funding Agreement is not a general obligation of the County and shall never constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or charge against the general credit or taxing power of the County.

The following is a schedule by fiscal year for the debt service requirement at 06/30/2011:

Fiscal Year Ending June 30	Taxable Limited Obligation Requirements		
	Principal	Interest	Total
2012	$ 1,005,000	$ 1,496,585	$ 2,501,585
2013	1,045,000	1,456,385	2,501,385
2014	1,085,000	1,414,585	2,499,585
2015	1,130,000	1,371,185	2,501,185
2016	1,175,000	1,325,985	2,500,985
2017-2021	6,735,000	5,772,950	12,507,950
2022-2026	8,595,000	3,910,150	12,505,150
2027-2030	8,700,000	1,297,520	9,997,520
Total	$ 29,470,000	$ 18,045,345	$ 47,515,345

10) **HUD Loan**

During 2002, the County Council authorized the Department of Housing and Community Affairs (DHCA) to participate in the HUD Section 108 program for the purpose of acquiring twenty-one units at the Chelsea Tower which provides affordable housing for income qualified persons. On July 16, 2003, the County signed a loan agreement with HUD in the amount of $870,000. The County subsequently received approval from the County Council to disburse and re-loan these funds to HOC. HOC will repay the County, through the Housing Initiative Special Revenue Fund, the principal of $870,000 with interest thereon on a semi-annual basis at 4.59 percent over a twenty-year period, which is consistent with the HUD repayment terms. The principal amount payable at June 30, 2011, for this loan is $569,000.

11) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

Governmental Activities	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
Bonds and Notes Payable:					
General obligation bonds	$1,669,839,285	$ 325,000,000	$(139,239,285)	$1,855,600,000	$157,265,000
Variable rate demand obligations	100,000,000	-	-	100,000,000	-
Bond anticipation notes	425,000,000	400,000,000	(325,000,000)	500,000,000	500,000,000
Lease revenue bonds	33,320,000	-	(1,770,000)	31,550,000	1,845,000
Revenue Bonds	13,923,324	29,360,000	(479,368)	42,803,956	1,538,846
Subtotal	2,242,082,609	754,360,000	(466,488,653)	2,529,953,956	660,648,846
Add remaining original issue premium	79,097,565	28,107,877	(18,283,354)	88,922,088	-
Less deferred amount on refundings	(26,717,785)	-	4,862,117	(21,855,668)	-
Total Bonds and Notes Payable	2,294,462,389	782,467,877	(479,909,890)	2,597,020,376	660,648,846
Other Liabilities:					
Certificates of participation	50,255,000	-	(6,320,000)	43,935,000	6,515,000
Taxable limited obligation certificates	30,400,000	-	(930,000)	29,470,000	1,005,000
HUD loan	612,000	-	(43,000)	569,000	43,000
WSSC Promissory Note	9,600,000	25,280	-	9,625,280	426,400
Equipment notes	3,685,942	3,893,967	(2,751,018)	4,828,891	1,511,231
Compensated absences	72,573,420	52,802,495	(44,125,489)	81,250,426	60,937,820
Other postemployment benefits	177,853,409	145,305,800	(39,626,938)	283,532,271	-
Capital leases	81,564,283	25,000	(10,432,543)	71,156,740	10,869,937
Claims and judgments	600,000	1,390,101	-	1,990,101	1,990,101
Subtotal	427,144,054	203,442,643	(104,228,988)	526,357,709	83,298,489
Add remaining original issue premium	289,512	-	(24,861)	264,651	-
Total Other Liabilities	427,433,566	203,442,643	(104,253,849)	526,622,360	83,298,489
Governmental Activities Long-Term Liabilities	$2,721,895,955	$ 985,910,520	$(584,163,739)	$3,123,642,736	$743,947,335
Business-Type Activities					
Revenue Bonds:					
Liquor Control	31,096,676	5,000,000	(1,070,632)	35,026,044	1,286,154
Parking revenue bonds	32,080,000	-	(1,915,000)	30,165,000	1,995,000
Solid waste disposal revenue refunding bonds	9,925,000	-	(3,550,000)	6,375,000	3,690,000
Subtotal	73,101,676	5,000,000	(6,535,632)	71,566,044	6,971,154
Add remaining original issue premium	2,042,412	243,931	(253,753)	2,032,590	-
Less remaining original issue discount	(10,486)	-	1,634	(8,852)	-
Less deferred amount on refundings	(160,019)	-	87,627	(72,392)	-
Total General Obligation and Revenue Bonds	74,973,583	5,243,931	(6,700,124)	73,517,390	6,971,154
Other Liabilities:					
Compensated absences	5,117,578	863,690	(283,567)	5,697,701	4,273,278
Other postemployment benefits	2,859,180	5,530,200	(4,424,158)	3,965,222	-
Equipment notes	252,610	-	(170,828)	81,782	81,782
Landfill closure costs	18,880,923	44,000	(1,294,800)	17,630,123	1,049,790
Total Other Liabilities	27,110,291	6,437,890	(6,173,353)	27,374,828	5,404,850
Business-Type Activities Long-Term Liabilities	$ 102,083,874	$ 11,681,821	$ (12,873,477)	$ 100,892,218	$ 12,376,004

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $2,515,443 ($1,886,583 due within one year and $628,860 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

12) **Conduit Debt Obligations**

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring and/or renovating facilities for third party facility users. Facility users may be individuals, public or private corporations, or other entities. The bonds are sometimes secured by the facilities financed or by a financial institution and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2011, there were 26 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 16 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2011, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled $167,560,000. The principal amount payable at June 30, 2011, for bonds issued after July 1, 1996, totaled $294,986,802.

13) **Special Taxing Districts**

The County created three development districts: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, the Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County with high priority for new development or redevelopment.

Pursuant to Chapter 14, special taxes and/or special assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County, and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued $2.4 million in special obligation bonds for the Kingsview Village Center Development District. Special taxes and assessments were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds for the West Germantown Development District. The County issued $11.6 million of Senior Series 2002A bonds and $4.3 million of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt.

The County Council terminated the Clarksburg Town Center development district in October 2010, therefore, no bonds were issued and no special taxes or assessments were levied for the Clarksburg Town Center Development District.

In March 2010, the County adopted a new sector plan for the White Flint area of north Bethesda. This smart-growth master plan attempts to transform the area into a pedestrian-friendly, transit-oriented, urban setting that is expected to be a leading economic engine for the County. To successfully implement the sector plan, the County adopted legislation (Bill 50-10, December 2010) to create a new special taxing district in the White Flint area, along with an implementation strategy and a list of the infrastructure necessary to successfully implement that strategy (Resolution No.16-1570, December 2010).

Bill 50-10 creates the White Flint Taxing District (Chapter 68C of the County Code) in order to collect ad valorem tax revenue that will provide a stable, reliable and consistent revenue stream. The revenue collected will fund the transportation infrastructure improvements identified in the implementation and strategy resolution by facilitating repayment of bonds authorized by the legislation.

COMPONENT UNITS

At June 30, 2011, HOC's noncurrent liabilities are comprised of the following:

	Due within one year	Long-Term	Total
Revenue bonds payable	$ 74,977,121	$ 661,716,639	$ 736,693,760
Capital leases payable	246,438	20,478,213	20,724,651
Notes and other payable	26,201,702	110,592,944	136,794,646
Total	$ 101,425,261	$ 792,787,796	$ 894,213,057

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

Purpose	
Multi-Family Mortgage Purchase Program Fund	$ 432,396,933
Single Family Mortgage Purchase Program Fund	304,296,827
Total	$ 736,693,760

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 0.35 to 11.25 percent and 0.50 to 6.75 percent, respectively, as of June 30, 2011.

Pursuant to Section 15 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding $50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year	Guaranteed Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2012	$ 32,650,000	$ 1,126,455	$ 33,776,455
2013	370,000	464,058	834,058
2014	385,000	446,500	831,500
2015	405,000	427,834	832,834
2016	0	418,215	418,215
2017-2021	2,880,000	2,019,075	4,899,075
2022-2026	0	1,371,075	1,371,075
2027-2031	5,430,000	685,538	6,115,538
Total	$ 42,120,000	$ 6,958,750	$ 49,078,750

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year	Total Revenue Bond Requirements		
Ending June 30	Principal	Interest	Total
2012	$ 74,977,118	$ 24,112,164	$ 99,089,282
2013	17,729,620	22,837,212	40,566,832
2014	18,966,304	22,208,683	41,174,987
2015	19,918,199	21,556,074	41,474,273
2016	21,545,299	20,939,115	42,484,414
2017-2021	88,522,640	94,744,645	183,267,285
2022-2026	90,400,911	78,217,057	168,617,968
2027-2031	137,425,422	60,688,241	198,113,663
2032-2036	101,020,000	36,563,826	137,583,826
2037-2041	131,555,000	19,380,567	150,935,567
2042-2046	24,840,000	6,417,133	31,257,133
2047-2051	8,830,000	1,236,142	10,066,142
2052-2056	830,000	16,268	846,268
Unamortized Bond Discount	133,247	-	133,247
Total	$ 736,693,760	$ 408,917,127	$ 1,145,610,887

Changes in the HOC revenue bonds during FY11 are as follows:

Purpose	Balance July 1, 2010	Bonds Issued*	Bonds Retired	Balance June 30, 2011
Multi-Family Mortgage Purchase Program Fund	$ 438,500,891	$ 117,956,042	$ 124,060,000	$ 432,396,933
Single Family Mortgage Purchase Program Fund	328,760,828	16,995,174	41,459,175	304,296,827
Total	$ 767,261,719	$ 134,951,216	$ 165,519,175	$ 736,693,760

* Includes accretions and bond discounts.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 2010	$ 249,592,047
Issuances during the year	-
Redemptions during the year	(305,190)
Bonds outstanding, June 30, 2011	$ 249,286,857

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

G) Segment Information

The County has issued revenue bonds to finance activities relating to Solid Waste Disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Activities Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2011, is presented below:

Condensed Statements of Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
ASSETS			
Current assets	$ 23,135,807	$ 2,632,338	$ 7,566,130
Due from component units	52,971	-	87,550
Other assets	34,431,661	3,420,410	5,301,832
Capital assets	43,291,922	83,515,484	77,279,415
Total Assets	100,912,361	89,568,232	90,234,927
LIABILITIES			
Current liabilities	10,991,501	1,656,446	3,562,180
Due to other funds	161,741	29,321	31,268
Long-term liabilities	19,903,469	164,613	28,368,194
Total Liabilities	31,056,711	1,850,380	31,961,642
NET ASSETS			
Invested in capital assets, net of related debt	36,923,190	83,433,702	47,050,271
Restricted for debt service	34,324,795	3,420,410	4,886,583
Unrestricted	(1,392,335)	863,740	6,336,431
Total Net Assets	$ 69,855,650	$ 87,717,852	$ 58,273,285

* Includes Solid Waste Leafing

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
OPERATING REVENUES (EXPENSES):			
Operating Revenues:			
Charges for services	$ 99,202,688	$ 8,618,466	$ 10,935,126
Licenses and permits	3,335	-	-
Fines and penalties	47,576	2,524,512	5,322,323
Total Operating Revenues (pledged against bonds)	99,253,599	11,142,978	16,257,449
Depreciation	2,404,365	5,569,137	4,926,096
Other operating expenses	91,656,696	9,490,979	7,829,314
Operating Income (Loss)	5,192,538	(3,917,138)	3,502,039
NONOPERATING REVENUES (EXPENSES):			
Property taxes	-	6,018,718	2,748,427
Gain (loss) on disposal of capital assets	125,641	1,270,390	-
Investment income	99,517	1,330	40,136
Interest expense	(517,570)	(5,840)	(1,369,435)
Other revenue	107,768	431,938	171,754
Transfers out	(2,044,640)	(4,931,542)	(10,034,510)
Change in Net Assets	2,963,254	(1,132,145)	(4,941,589)
Beginning Net Assets	66,892,396	88,849,997	63,214,874
Ending Net Assets	$ 69,855,650	$ 87,717,852	$ 58,273,285

Condensed Statements of Cash Flows

	Solid Waste Disposal *	Silver Spring PLD	Bethesda PLD
Net Cash Provided (Used) By:			
Operating activities	$ 6,207,598	$ 2,684,958	$ 8,610,171
Noncapital financing activities	(2,044,640)	1,087,176	(7,286,083)
Capital and related financing activities	(5,208,654)	(2,793,812)	(5,631,779)
Investing activities	15,778	1,330	2,976
Net Increase (Decrease)	(1,029,918)	979,652	(4,304,715)
Beginning Cash and Cash Equivalents	51,115,932	3,781,692	13,929,191
Ending Cash and Cash Equivalents	$ 50,086,014	$ 4,761,344	$ 9,624,476

* Includes Solid Waste Leafing

H) Fund Equity

1) Governmental Fund Balances

The governmental fund balances at June 30, 2011 are composed of the following:

		Major Special Revenue Funds				
	General	Revenue Stabilization	Housing Initiative	Debt Service	Capital Projects	Other Non-Major Governmental Funds
Fund Balances:						
Nonspendable:						
Inventory	$ 3,842,213	$ -	$ -	$ -	$ 4,349,690	$ -
Long term receivables	-	-	189,732,382	-	13,443,045	4,741,121
Prepaids	339,269	-	-	-	2,500	42,555
Restricted for:						
Public works and transportation	-	-	-	-	-	387,675
Culture and recreation	-	-	-	-	-	2,443,887
Community development and housing	-	-	6,965,096	-	-	-
Environment	-	-	-	-	-	2,026,728
Other Purposes	-	94,537,588	-	3,343,109		7,139,622
Committed to:						
Public safety	-	-	-	-	-	3,681,702
Public works and transportation	80,340	-	-	-	-	6,617,808
Culture and recreation	3,277,440	-	-	-	-	1,453,341
Community development and housing	787,659	-	266,543	-	-	-
Environment	-	-	-	-	-	6,717,302
Education	8,067,828	-	-	-	-	-
Capital Projects	-	-	-	-	77,879,185	-
Other Purposes	11,062,479	-	-	-	-	494,138
Assigned to:						
Public safety	2,131,925	-	-	-	-	-
Public works and transportation	2,256,571	-	-	-	-	-
Health and human services	1,313,227	-	-	-	-	-
Culture and recreation	682,905	-	-	-	-	-
Community development and housing	21,146	-	-	-	-	-
Environment	13,848	-	-	-	-	-
Other Purposes	4,603,334	-	-	-	-	-
Unassigned:	69,031,737	-	-	-	-	(16,187,982)
Total fund balances	$ 107,511,921	$ 94,537,588	$ 196,964,021	$ 3,343,109	$ 95,674,420	$ 19,557,897
Summary of fund balances:						
Nonspendable	$ 4,181,482	$ -	$ 189,732,382	$ -	$ 17,795,235	$ 4,783,676
Restricted	-	94,537,588	6,965,096	3,343,109	-	11,997,912
Committed	23,275,746	-	266,543	-	77,879,185	18,964,291
Assigned	11,022,956	-	-	-	-	-
Unassigned	69,031,737	-	-	-	-	(16,187,982)
Total fund balances	$ 107,511,921	$ 94,537,588	$ 196,964,021	$ 3,343,109	$ 95,674,420	$ 19,557,897

2) Encumbrances

Encumbrance accounting is employed as part of the budgetary integration for all governmental funds. As of June 30, 2011, certain amounts which were available for specific purposes have been encumbered in the governmental funds. Encumbrances are included in the County's governmental fund balances are as follows:

Governmental Fund	Restricted/Committed or Assigned Fund Balance
General Fund	$ 11,022,956
Housing Initiative	266,543
Capital Projects	77,879,185
Non-major Governmental Funds	3,755,608
Total Governmental Funds	$ 92,924,292

The fund balances of the following governmental funds do not include the encumbrances which otherwise meet the criteria for restricted, committed or assigned fund balance:

Governmental Fund	Encumbrances not included in Fund Balance
Grants	$ 9,174,191
Debt Service	1,154,946
Capital Projects	267,846,918
Fire Tax District	299,801
Total Governmental Funds	$ 278,475,856

3) Net Assets Restricted by Enabling Legislation

Net assets restricted by enabling legislation represent legislative restrictions that a party external to the government can compel the government to honor. For the County, such amounts represent primarily accumulated net assets attributed to revenue streams, such as taxes or fees, which are restricted for specified purposes in the County Code. This generally includes Capital Project Fund recordation and impact tax collections on hand for other component unit and municipal governments, ending fund balances of substantially all special revenue funds, and ending unrestricted net assets of the Solid Waste Activities and Parking Lot Districts enterprise funds. Such amounts, which are included with restricted net assets in the government-wide Statement of Net Assets, are as follows at year-end:

Governmental activities	$ 339,662,674
Business-type activities	10,185,601
Total	$ 349,848,275

I) Significant Transactions with Discretely Presented Component Units

1) Operating and Capital Funding

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2011:

	General Fund			Capital	
	Operating	Capital *	Total	Projects	Total
MCPS	$ 1,416,575,854	$ 5,988,811	$ 1,422,564,665	$ 176,887,746	$ 1,599,452,411
MCC	99,989,930	2,519,862	102,509,792	20,828,802	123,338,594
HOC	6,293,617	-	6,293,617	1,700,396	7,994,013
Total	$ 1,522,859,401	$ 8,508,673	$ 1,531,368,074	$ 199,416,944	$ 1,730,785,018

* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MCC are classified as education expenditures; HOC funding is classified under community development and housing.

2) Other Transactions

BUPI charges for services revenue includes $3,971,400 earned under contracts with the County. For capital leases with MCRA, see Note III-E3. For mortgages receivable due from HOC, see Note III-B2.

NOTE IV. OTHER INFORMATION

A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation; comprehensive general; automobile and professional liability (errors and omissions); property coverage including fire and theft; and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include MCPS, HOC, MCC, MCRA, BUPI, M-NCPPC, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Village of Drummond, and the Village of Friendship Heights. The liability for claims with respect to all participants transfers to the self-insurance fund, except for M-NCPPC which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, prescription, dental, vision, and life insurance. While the majority of coverage is self-insured, certain fully insured plan options, including health maintenance organizations (HMO’s), are offered to participants.

WSTC, BUPI, Montgomery Community Television, the Strathmore Hall Foundation, Inc., Arts and Humanities Council of Montgomery County, Montgomery County Volunteer Fire & Rescue Association, and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Self-Insurance Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported which incorporate incremental claims adjustment expenses incurred only because of the claim, but do not include nonincremental claims adjustment expenses such as internal salary costs. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in the Liability and Property Coverage Self-Insurance Fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY11 and FY10 are as follows:

	Liability and Property Coverage	Employee Health Benefits
Balance July 1, 2009	$ 88,136,000	$ 6,800,208
Claims and changes in estimates	35,825,614	98,011,667
Claim payments [1]	(29,128,614)	(97,609,306)
Balance June 30, 2010	94,833,000	7,202,569
Claims and changes in estimates	39,611,783	93,345,399
Claim payments [1]	(32,418,783)	(93,036,561)
Balance June 30, 2011 [2,3]	$ 102,026,000	$ 7,511,407

1 Includes non-monetary settlements.

2 Includes incurred but not reported (IBNR) claims of $52,742,000 and $7,529,407 for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

3 Life Insurance is covered by a third-party provider, but the County is required to hold a reserve with the provider proportionate to claims incurred. The Life Insurance IBNR of $18,000 is not included in the schedule. Claims payable including Life IBNR is $7,529,407.

B) Significant Commitments and Contingencies

1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after

October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at $62,467,000, which has been fully accrued through June 30, 2011. Of the total amount accrued, $41,321,077 in actual costs has been paid out in prior years, and $1,294,800 was paid in FY11, resulting in a net liability of $17,630,123 at June 30, 2011. The current and non-current portions of the adjusted liability at year-end are estimated at $1,049,790 and $16,580,333 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) Pollution Remediation

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that the County disclose in the notes of the financial statements any contingent liability related to a pollution remediation event. The County has a contingent liability with respect to the Gude Landfill. This landfill was used for the disposal of County municipal solid waste from 1965 to 1982. The landfill received approximately 4.8 million tons of municipal waste from 1965 until the site was closed in 1982. A contingent liability currently exists because the Gude Landfill has been identified as a site which will require pollution remediation or additional post-closure costs due to ground water and surface water contamination. The County is still investigating the extent to which this site needs remediation, therefore no reasonable estimable costs can be reported for FY11 and may not be until FY12. In light of this determination, GASB 49 dictates that the potential financial liability be disclosed only in the footnote section and not the financial statements.

3) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed $1,990,101. In accordance with general accepted accounting principles, this amount has been reflected as a liability in the accompanying financial statements, given that the claims are determined to be probable.

4) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2011, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

5) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amounts of outstanding commitments at June 30, 2011, are as follows:

Enterprise Funds:	Operating	Capital	Inventory	Total
Major Funds:				
Liquor	$ 32,255	$ -	$ 7,181,877	$ 7,214,132
Solid Waste Activities:				
Disposal operations	10,310,631	-	-	10,310,631
Collection operations	417,955	-	-	417,955
Parking Lot Districts:				
Silver Spring	1,374,119	1,122,060	-	2,496,179
Bethesda	550,475	1,359,087	-	1,909,562
Wheaton	101,247	134,218	-	235,465
Montgomery Hills	16,128	-	-	16,128
Subtotal	12,802,810	2,615,365	7,181,877	22,600,052
Nonmajor Funds:				
Permitting Services	158,830	-	-	158,830
Community Use of Public Facilities	383	-	-	383
Subtotal	159,213	-	-	159,213
Total Enterprise Funds	12,962,023	2,615,365	7,181,877	22,759,265
Internal Service Funds:				
Motor Pool	1,136,150	-	4,223,363	5,359,513
Central Duplicating	497,952	-	-	497,952
Employee Health Benefits Self-Insurance	2,722,160	-	-	2,722,160
Total Internal Service Funds	4,356,262	-	4,223,363	8,579,625
Total Proprietary Funds	$ 17,318,285	$ 2,615,365	$ 11,405,240	$ 31,338,890

As of June 30, 2011, the County has $6,995,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) Subsequent Events

On July 7, 2011, the County issued a Purchase Agreement totaling $20,900,000 to finance public safety system communication Equipment. On August 3, 2011, the County issued General Obligation Bonds (Tax-Exempt, Series A) in the amount of $320,000,000 and General Obligation Refunding Bonds (Tax-Exempt, Series A) amounting to $237,655,000. Subsequent to closing, the County retired commercial paper bond anticipation notes (BANS) totaling $356,000,000; $112,200,000 for 2009 series and $243,800,000 for 2010 series. On August 10, 2011, the County issued Taxable Limited Obligation Certificates totaling $28,840,000. The County issued Lease Revenue and Refunding Bonds totaling $35,465,000 for Metrorail projects including the Glenmont metrorail garage on September 27, 2011 . On September 30, the County entered into a Master Lease- Purchase Agreement to finance the acquisition and installation of new information technology systems totaling $12,922,618.

D) Joint Ventures

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no “Investment in Joint Ventures” is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

Maryland-National Capital Park and Planning Commission (M-NCPPC)

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George’s Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2011, M-NCPPC had outstanding notes payable and bonds payable in the amount of $97,757,611, of which $2,240,614 was self-supporting. Of the total amount payable, $13,745,848 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County’s contingent liability for non self-supporting M-NCPPC debt at June 30, 2011, is $29,166,493, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

Washington Suburban Sanitary Commission (WSSC)

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2011, WSSC had outstanding notes payable and bonds payable in the amount of $1,426,620,000, which was fully self-supporting. Of the total amount payable, $300,451,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2011, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland

Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the Maryland Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling $72,746 to WSTC during FY11.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the State of Maryland, the Commonwealth of Virginia, and the District of Columbia. WMATA’s primary function is to plan, construct, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a sixteen-member Board of Directors. Maryland, Virginia, the District of Columbia, and the federal government each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metrorail and Metrobus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rail System. The County's share of the cost of construction of the Metro Rail System has been totally assumed by the State. In addition, State legislation mandates that the State provide 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover its related 100 percent of the combined operating deficit of WMATA and County Ride-On operations (that began on or after June 30, 1989) assuming that 35 percent (effective in FY09) of gross operating costs are recovered by revenues.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY11, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

Bus operating subsidy	$ 53,006,974
Rail operating subsidy	22,453,803
Americans with Disabilities Act service	24,147,209
MetroMatters program	4,955,550
Capital Improvement Program	22,271,476
Project Development Program	506,000
Debt service on WMATA revenue bonds	4,867,500
Local bus program	22,089,042
Total	$154,297,554

At June 30, 2011, WMATA had outstanding bonds payable of $337,510,000, of which $32,160,000 represented bonds payable due within one year. All of this debt is payable from resources of WMATA.

<u>Metropolitan Washington Council of Governments (COG)</u>

COG is a multi-governmental regional planning organization in which local governments work together, in partnership with state and federal government agencies, to create and implement solutions to regional issues. The County is a COG member along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted a member or members on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 12 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY11 membership dues and fees for services amounting to $742,928.

<u>Northeast Maryland Waste Disposal Authority (NEMWDA)</u>

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following eight member jurisdictions from the State of Maryland: Montgomery County, Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Frederick County, Harford County, and Howard County. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, NEMWDA refinanced $205,078,908 of the 1993 bonds. At June 30, 2011, NEMWDA had outstanding bonds payable in the amount of $139,935,000 of which $22,400,000 represented debt due within one year. Of these amounts, $134,140,000 is related to the Project, $20,420,000 of which represented debt due within one year. These bonds are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement.

The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Activities Enterprise Fund during FY11 amounted to $38,011,506.

E) Employee Benefits

1) Deferred Compensation

During FY05, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who did not elect to continue to participate in the County Plan may participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

During FY99, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees (Board). The County Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. The assets of the Union Plan are not included in the accompanying financial statements since the County has no fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

Under both Plans, contributions are sent to contracted third party administrator investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, the investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses relating to the County Plan, which are not significant to the County Plan, have been paid by the General Fund.

2) Annual, Sick Leave, and Other Compensated Absences

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees' Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY11, the County and its employees contributed $91,159,880 and $30,299,820, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled $692,310, $3,168,411, and $187,615 for these component units, respectively, for FY11.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

Plan Description - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of thirteen trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be accessed on the County's website at http://www.montgomerycountymd.gov/bit, or can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 101 Monroe Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. Substantially all employees hired prior to October 1, 1994, of the County, MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, Montgomery County Employees Federal Credit Union, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Section 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when members terminate employment before their retirement date and after completion of five years of credited service, they may elect to leave their member contributions in the System and receive a pension upon reaching their normal retirement date, based on the amount of their normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded their accumulated contributions with interest.

Deferred Retirement Option (DROP) Plans, established in FY00, allow any employee who is a member of a specified membership class or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and earnings.

Funding Policy - Required employee contribution rates varying from 3 to 9.25 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non -public safety and public safety employees, respectively.

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY11 were based on an actuarial valuation as of June 30, 2009, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made.

The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY10 were as follows:

Fiscal Year	APC	Percentage of APC Contributed	NPO
2009	$ 109,567,014	100 %	$ -
2010	113,957,784	100	-
2011	109,343,933	100	-

Allocated Insurance Contract - On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

2) Defined Contribution Plan

Plan Description - Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Section 33-114 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan, unless they elect to participate in the GRIP. In addition to the County, other participant agencies include MCRA, HOC, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., WSTC, and Montgomery County Employees Federal Credit Union. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under Section 33-116 of the Code, the Plan requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions to this Plan for FY11 were $16,071,953 and $8,685,919, respectively. In accordance with IRS regulations and the County Code, $600,000 in accumulated revenue was used to reduce employer contributions in FY11.

The Montgomery County Council passed legislation in FY09 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees' Retirement System, for employees. During FY10, eligible County employees who were members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan. For employees who elected to participate in the GRIP, the $31.5 million transfer of their member account balances from the Plan to the GRIP has been reported as movement of member account asset balances in the accompanying Statement of Changes in Plan Net Assets.

3) Other

The County contributed $1,030,360 during FY11 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

4) Length of Service Award Program (LOSAP)

Under Section 21-21 of the Montgomery County Code, the County has established a Length of Service Award Program (LOSAP) for the County's Department of Fire and Rescue Service volunteers who meet certain age and service criteria. Benefit expenditures amounting to $1,283,309 in FY11 also include disability and survivor annuities and lump-sum death benefits, and are reported in the Fire Tax District Special Revenue Fund on a "pay-as-you-go" basis. There were 494 recipients comprising former volunteers and their beneficiaries at the end of FY11. Based on the latest available valuation, the unfunded actuarial accrued liability for the LOSAP plan is $20,740,159.

G) Other Postemployment Benefits (OPEB)

Plan Description – During FY08, the Montgomery County Council enacted legislation (Bill No. 28-07) to establish a new trust effective July 1, 2007 to fund certain County retiree benefit plans. The Retiree Health Benefits Trust (Retiree Trust) is a cost-sharing multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the Retiree Trust. The Board consists of thirteen trustees and functions as part of the County. Separate financial statements are not issued for the Retiree Trust.

Substantially all retirees of the County, MCRA, HOC, the independent fire/rescue corporations, WSTC, the Strathmore Hall Foundation, Inc., the Village of Friendship Heights, Montgomery County Employees Federal Credit Union and certain retirees of the State Department of Assessments and Taxation, are provided postemployment benefits such as medical, life, dental, vision, and prescription coverage under the Montgomery County Group Insurance Plan (Plan). Retirees may also elect coverage for their eligible dependents. A member of the Employees' Retirement System of Montgomery County, who retires under a normal, early, disability or discontinued service retirement, is eligible for group insurance benefits under the Plan. However, the member is not eligible for group insurance benefits if the member leaves County service prior to retirement eligibility with a deferred vested benefit payable upon member's retirement date. A member of the Employees' Retirement Savings Plan is eligible for group insurance upon separation from service based upon the member's age and credited service at the time of separation. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan Description.

Plan membership at June 30, 2010, the most recent actuarial valuation, consisted of the following:

Retirees and beneficiaries receiving benefits	8,083
Active plan members	9,624
Total	17,707

Condensed FY11 financial statements for the Retiree Health Benefits Trust are as follows:

Condensed Statement of Fiduciary Net Assets

ASSETS	
Cash and investments	$ 54,077,267
Other assets	5,707,596
Total Assets	59,784,863
LIABILITIES	
Claims payable	4,492,121
Other liabilities	29,881
Total Liabilities	4,522,002
NET ASSETS:	
Held in trust for other postemployment benefits	$ 55,262,861

Condensed Statement of Changes in Fiduciary Net Assets

ADDITIONS	
Contributions	$ 61,389,119
Net investment income (loss)	9,988,452
Total Additions, net	71,377,571
DEDUCTIONS	
Benefits	51,071,129
Administrative	3,191,143
Total Deductions	54,262,272
Change in Net Assets	17,115,299
Beginning Net Assets	38,147,562
Ending Net Assets	$ 55,262,861

Contributions – The County Council has the authority to establish and amend contribution requirements of the plan members and the County. The Plan is a contributory plan in which the County and the retired members and beneficiaries contribute, based on an actuarial valuation, certain amounts toward the current cost of healthcare benefits. During FY11, plan members and beneficiaries receiving benefits contributed $17,338,021 (approximately 32 percent of current contributions). The County and other contributing entities contributed $44,051,098, including $36,762,808 (approximately 68 percent of current contributions) for current premiums, claims and administrative expenses, and $7,288,290 toward prefunding future benefits.

Funding Status and Funding Progress – As of June 30, 2010, the most recent actuarial valuation, the actuarial accrued liability (AAL) was $1,737,436,000 and there was $38,168,000 of actuarial plan assets; therefore, the unfunded AAL (UAAL) was $1,699,268,000. The annual covered payroll of active employees covered by the Plan was $665,746,000 and the ratio of the UAAL to covered payroll was 255.2 percent.

The actuarial valuation of the Plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts regarding the funded status of the Plan and the annual required contributions (ARC) of the County and other participating agencies are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

During FY08, the County Council adopted Resolution No. 16-555, expressing its intent to phase in to full funding of the difference between pay-as-you-go contributions and the ARC over eight years. The prefunding contributions reflected in the accompanying financial statements represent the fourth year of that eight year phase in.

Annual OPEB Cost and Net OPEB Obligation - The ARC, or annual OPEB cost (AOC), for FY11 was based on an actuarial valuation as of June 30, 2010, the latest valuation available on the date the County Council was required to approve the FY11 budget.

The AOC and the net OPEB obligation of the County as of June 30, 2011 were as follows:

Annual required contribution (ARC)	$ 147,582,000
Interest on net OPEB obligation	3,254,000
Annual OPEB cost	150,836,000
Contributions made	44,051,098
Increase in net OPEB obligation	106,784,902
Net OPEB obligation - beginning of year	180,712,589
Net OPEB obligation - end of year	$ 287,497,491

The County's annual required contribution and the net OPEB obligation of the plan for the current and prior two years were as follows:

Fiscal Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2009	$113,139,000	51.4 %	$113,534,939
2010	109,738,000	38.8	180,712,589
2011	150,836,000	29.2	287,497,491

Actuarial Methods and Assumptions – The calculations of projected benefits are based on the terms of the Plan in effect at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liability and the actuarial value of assets.

Actuarial assumptions used in the actuarial valuation were:

Valuation date	June 30, 2010
Actuarial method	Projected unit credit
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open period)
Investment rate of return	6.0%
Salary scale	4.25%
Inflation rate	3%
Mortality	RP 2000 projected 30 years, separate tables for males and females
Health care cost trend rates:	(initial, ultimate)
Medical (excluding Indemnity plan) pre-65	9.5%, 5.0%
Medical (excluding Indemnity plan) post-65	7.5%, 5.0%
Medical (Indemnity plan)	10.5%, 5.0%
Prescription drugs	8.0%, 5.0%
Dental	5.5%, 4.5%

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			Variance
	Original	Final		Positive
	Budget	Budget	Actual	(Negative)
Revenues:				
Taxes:				
Property	$ 1,084,783,128	$ 1,084,783,128	$ 1,059,358,787	$ (25,424,341)
Property - penalty and interest	1,478,098	1,478,098	2,223,293	745,195
Total Property Tax	1,086,261,226	1,086,261,226	1,061,582,080	(24,679,146)
County income tax	1,060,680,000	1,060,680,000	1,039,234,850	(21,445,150)
Other Local Taxes:				
Real property transfer	75,650,000	75,650,000	71,809,475	(3,840,525)
Recordation	64,241,000	64,241,000	57,725,334	(6,515,666)
Fuel energy	245,484,000	245,484,000	233,408,845	(12,075,155)
Hotel - motel	17,353,000	17,353,000	19,295,158	1,942,158
Telephone	48,368,500	48,368,500	49,087,889	719,389
Other	2,043,000	2,043,000	2,212,696	169,696
Total Other Local Taxes	453,139,500	453,139,500	433,539,397	(19,600,103)
Total Taxes	2,600,080,726	2,600,080,726	2,534,356,327	(65,724,399)
Licenses and Permits:				
Business	4,247,150	4,247,150	4,513,166	266,016
Non business	5,145,060	5,145,060	5,859,431	714,371
Total Licenses and Permits	9,392,210	9,392,210	10,372,597	980,387
Intergovernmental Revenue:				
State Aid and Reimbursements:				
DHR State reimbursement - HB669	22,500	22,500	24,630	2,130
Highway user revenue	885,000	885,000	2,352,970	1,467,970
Police protection	8,194,100	8,194,100	8,683,265	489,165
Health and human services programs	4,614,540	4,614,540	3,807,098	(807,442)
Public libraries	5,419,710	5,419,710	5,032,904	(386,806)
911 Emergency	6,849,290	6,849,290	5,415,903	(1,433,387)
Other	1,690,510	1,690,510	874,219	(816,291)
Total State Aid and Reimbursements	27,675,650	27,675,650	26,190,989	(1,484,661)
Federal Reimbursements:				
Federal financial participation	10,396,980	10,396,980	10,425,219	28,239
Other	27,211,240	27,211,240	12,944,851	(14,266,389)
Total Federal Reimbursements	37,608,220	37,608,220	23,370,070	(14,238,150)
Other Intergovernmental	3,260,400	3,260,400	2,084,188	(1,176,212)
Total Intergovernmental Revenue	68,544,270	68,544,270	51,645,247	(16,899,023)
Charges for Services:				
General government	1,735,060	1,735,060	1,706,416	(28,644)
Public safety	7,094,520	7,094,520	5,973,850	(1,120,670)
Health and human services	1,480,150	1,480,150	1,156,373	(323,777)
Culture and recreation	600	600	9,822	9,222
Environment	288,000	288,000	527,803	239,803
Public works and transportation:	292,180	292,180	109,383	(182,797)
Total Charges for Services	10,890,510	10,890,510	9,483,647	(1,406,863)
Fines and Forfeitures	25,734,240	25,734,240	19,249,187	(6,485,053)
Investment Income:				
Pooled investment income	902,535	902,535	(2,760)	(905,295)
Other interest income	140,000	140,000	14,966	(125,034)
Total Investment Income	1,042,535	1,042,535	12,206	(1,030,329)
Miscellaneous Revenue:				
Property rentals	5,631,970	5,631,970	5,388,500	(243,470)
Sundry	6,493,890	6,493,890	12,158,711	5,664,821
Total Miscellaneous Revenues:	12,125,860	12,125,860	17,547,211	5,421,351
Total Revenues	2,727,810,351	2,727,810,351	2,642,666,422	(85,143,929)
Expenditures:				
Departments or Offices:				
County Council:				
Personnel costs	8,147,300	8,147,300	7,955,867	191,433
Operating	624,416	699,018	699,012	6
Totals	8,771,716	8,846,318	8,654,879	191,439
Board of Appeals:				
Personnel costs	510,210	510,210	493,148	17,062
Operating	57,174	57,174	55,103	2,071
Totals	567,384	567,384	548,251	19,133

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			**Variance**
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Legislative Oversight:				
Personnel costs	$ 1,192,260	$ 1,192,260	$ 1,145,347	$ 46,913
Operating	54,160	54,160	21,095	33,065
Totals	1,246,420	1,246,420	1,166,442	79,978
Merit System Protection Board:				
Personnel costs	132,910	137,450	137,442	8
Operating	16,184	15,743	6,018	9,725
Totals	149,094	153,193	143,460	9,733
Zoning and Administrative Hearings:				
Personnel costs	439,910	439,910	430,568	9,342
Operating	112,282	110,282	61,336	48,946
Totals	552,192	550,192	491,904	58,288
Inspector General:				
Personnel costs	500,290	500,290	412,223	88,067
Operating	159,851	159,851	46,464	113,387
Totals	660,141	660,141	458,687	201,454
Circuit Court:				
Personnel costs	7,694,820	7,849,400	7,849,391	9
Operating	2,418,960	2,521,664	2,521,662	2
Totals	10,113,780	10,371,064	10,371,053	11
State's Attorney:				
Personnel costs	11,845,550	11,855,350	11,855,348	2
Operating	503,946	532,477	532,469	8
Totals	12,349,496	12,387,827	12,387,817	10
County Executive:				
Personnel costs	4,196,420	4,196,420	3,964,170	232,250
Operating	750,178	750,078	682,245	67,833
Totals	4,946,598	4,946,498	4,646,415	300,083
Commission for Women:				
Personnel costs	799,420	813,270	813,268	2
Operating	81,880	84,820	84,819	1
Totals	881,300	898,090	898,087	3
Regional Service Centers:				
Personnel costs	1,930,150	1,930,150	1,915,167	14,983
Operating	840,784	826,895	523,865	303,030
Totals	2,770,934	2,757,045	2,439,032	318,013
Ethics Commission:				
Personnel costs	214,650	231,660	231,658	2
Operating	3,600	23,600	19,090	4,510
Totals	218,250	255,260	250,748	4,512
Intergovernmental Relations				
Personnel costs	722,540	722,540	686,083	36,457
Operating	86,420	86,420	70,554	15,866
Totals	808,960	808,960	756,637	52,323
Public Information:				
Personnel costs	3,813,460	3,849,950	3,849,949	1
Operating	1,146,890	1,222,890	1,222,886	4
Totals	4,960,350	5,072,840	5,072,835	5
Board of Elections:				
Personnel costs	3,699,640	3,699,640	3,636,660	62,980
Operating	4,292,506	4,285,350	3,766,035	519,315
Totals	7,992,146	7,984,990	7,402,695	582,295
County Attorney:				
Personnel costs	4,136,300	4,366,740	4,366,731	9
Operating	427,536	600,166	600,159	7
Totals	4,563,836	4,966,906	4,966,890	16
Management and Budget:				
Personnel costs	3,211,250	3,211,250	3,106,020	105,230
Operating	107,540	107,540	105,666	1,874
Total Management & Budget	3,318,790	3,318,790	3,211,686	107,104
Finance:				
Personnel costs	8,457,170	7,843,170	7,842,626	544
Operating	1,154,449	1,136,251	991,856	144,395
Totals	9,611,619	8,979,421	8,834,482	144,939

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			**Variance**
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Human Resources:				
Personnel costs	$ 4,093,180	$ 4,247,860	$ 4,247,855	$ 5
Operating	2,153,824	2,153,824	1,738,367	415,457
Totals	6,247,004	6,401,684	5,986,222	415,462
Technology Services				
Personnel costs	14,366,490	14,937,260	14,937,255	5
Operating	13,115,376	13,090,147	12,109,249	980,898
Totals	27,481,866	28,027,407	27,046,504	980,903
General Services:				
Personnel costs	13,657,140	14,618,410	14,618,405	5
Operating	10,364,553	13,840,550	13,314,675	525,875
Totals	24,021,693	28,458,960	27,933,080	525,880
Consumer Protection				
Personnel costs	1,848,090	1,899,710	1,899,705	5
Operating	231,110	231,110	120,270	110,840
Totals	2,079,200	2,130,820	2,019,975	110,845
Corrections and Rehabilitation:				
Personnel costs	55,148,820	56,723,650	56,723,646	4
Operating	6,657,420	6,657,420	6,303,837	353,583
Totals	61,806,240	63,381,070	63,027,483	353,587
Human Rights Commission:				
Personnel costs	1,599,730	1,599,730	1,468,065	131,665
Operating	139,117	139,117	100,575	38,542
Totals	1,738,847	1,738,847	1,568,640	170,207
Police:				
Personnel costs	194,650,710	195,416,800	195,416,799	1
Operating	35,717,656	32,161,356	28,292,741	3,868,615
Totals	230,368,366	227,578,156	223,709,540	3,868,616
Sheriff:				
Personnel costs	17,742,590	18,267,590	18,266,864	726
Operating	1,768,337	1,904,470	1,899,976	4,494
Totals	19,510,927	20,172,060	20,166,840	5,220
Emergency Management and Homeland Security:				
Personnel costs	1,056,440	950,800	945,118	5,682
Operating	351,650	323,990	227,931	96,059
Totals	1,408,090	1,274,790	1,173,049	101,741
Transportation:				
Personnel costs	21,934,160	26,651,550	26,651,543	7
Operating	13,903,508	28,850,609	27,531,151	1,319,458
Totals	35,837,668	55,502,159	54,182,694	1,319,465
Health and Human Services:				
Personnel costs	104,544,180	101,222,650	100,873,421	349,229
Operating	73,873,438	69,703,191	69,627,736	75,455
Totals	178,417,618	170,925,841	170,501,157	424,684
Libraries:				
Personnel costs	24,378,940	24,614,710	24,614,704	6
Operating	4,472,140	4,472,140	4,247,187	224,953
Totals	28,851,080	29,086,850	28,861,891	224,959
Housing and Community Affairs:				
Personnel costs	3,309,940	3,322,810	3,322,807	3
Operating	591,750	591,750	537,414	54,336
Totals	3,901,690	3,914,560	3,860,221	54,339
Economic Development:				
Personnel costs	3,719,200	3,733,710	3,733,709	1
Operating	2,579,514	2,565,950	2,493,037	72,913
Totals	6,298,714	6,299,660	6,226,746	72,914
Environmental Protection:				
Personnel costs	1,481,990	1,481,990	1,456,655	25,335
Operating	485,584	485,584	407,307	78,277
Totals	1,967,574	1,967,574	1,863,962	103,612
Total Departments	704,419,583	721,631,777	710,830,004	10,801,773

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			**Variance**
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Nondepartmental:				
State retirement contribution - operating	$ 1,030,360	$ 1,030,360	$ 1,030,360	$ -
Retirees group insurance - operating	31,096,730	31,096,730	31,096,730	-
State positions supplement - personnel	133,150	133,150	98,940	34,210
Judges special pension contribution - personnel	3,500	3,500	273	3,227
Compensation adjustment - personnel	1,088,070	1,088,070	733,370	354,700
Compensation adjustment - operating	640,710	847,020	847,017	3
Municipal tax duplication - operating	6,662,120	6,662,120	6,656,131	5,989
Tax grants to municipalities - operating	28,020	28,020	28,012	8
Rebate - Takoma Park police - operating	717,580	881,170	881,162	8
Rebate - Takoma Park library - operating	100,950	100,950	100,950	-
Homeowners' association roadways - operating	16,000	16,000	16,000	-
Contribution to risk management - operating	16,861,890	16,861,890	16,699,467	162,423
Housing Opportunities Commission	5,804,040	-	-	-
Historical activities - operating	287,090	287,090	287,090	-
Conference and Visitors Bureau - operating	700,710	700,710	700,710	-
Arts Council - operating	4,872,920	4,872,920	4,872,920	-
Community grants - operating	4,699,944	4,719,810	4,719,800	10
Conference Center - personnel	116,170	116,170	100,216	15,954
Conference Center - operating	451,230	451,230	369,964	81,266
English Literacy - operating	717,850	717,850	717,850	-
County associations - operating	72,710	72,710	72,709	1
Metropolitan Washington C O G - operating	754,500	754,500	742,928	11,572
Public Technology, Inc. - operating	20,000	20,000	20,000	-
Independent audit - operating	420,820	420,820	418,193	2,627
Prisoner medical services - operating	10,000	10,000	-	10,000
State property tax services - operating	205,760	205,760	114,207	91,553
Boards, committees and commissions - operating	27,000	27,000	17,919	9,081
Charter Review Commission - operating	100	100	-	100
Working families income supplement - operating	11,788,200	12,961,080	12,961,074	6
Interagency technology, policy & coordinating committee - opera	5,000	5,040	5,039	1
County leases - operating	21,002,899	20,557,349	20,557,329	20
Rockville Parking District - operating	381,390	383,040	383,040	-
Climate Change - operating	65,855	17,964	-	17,964
Inauguration & Transition - Personnel	5,000	5,000	2,741	2,259
Desktop computer modernization - operating	4,021,821	3,834,646	3,832,641	2,005
Utilities - operating	28,630,440	26,800,940	26,800,938	2
Total - Nondepartmental	143,440,529	136,690,709	135,885,720	804,989
Total Expenditures	847,860,112	858,322,486	846,715,724	11,606,762
Excess of Revenues over (under) Expenditures	1,879,950,239	1,869,487,865	1,795,950,698	(73,537,167)
Other Financing Sources (Uses):				
Transfers In:				
Special Revenue Funds:				
Fire Tax District	120,750	120,750	120,750	-
Recreation	3,765,140	3,765,140	3,765,140	-
Mass Transit	7,097,710	7,097,710	7,097,710	-
Water Quality Protection	555,880	555,880	555,880	-
Urban Districts	355,690	355,690	355,690	-
Housing Activities	201,500	201,500	201,500	-
Grants	632,480	632,480	632,394	(86)
Cable TV	9,328,460	11,920,460	11,920,460	-
Total Special Revenue Funds	22,057,610	24,649,610	24,649,524	(86)
Enterprise Funds:				
Liquor	26,206,170	31,291,320	31,291,320	-
Parking Lot Districts	966,750	966,750	966,750	-
Solid Waste Activities	2,194,660	2,209,110	2,209,110	-
Community Use of Public Facilities	326,290	326,290	326,290	-
Permitting Services	2,978,070	2,978,070	2,978,070	-
Total Enterprise Funds	32,671,940	37,771,540	37,771,540	-
Internal Service Funds:				
Motor Pool	2,500,000	2,500,000	2,500,000	-
Total Internal Service Funds	2,500,000	2,500,000	2,500,000	-
Total Transfers In	57,229,550	64,921,150	64,921,064	(86)

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-1

	Budget			**Variance**
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Component Units:				
Montgomery College	$ 247,610	$ 247,610	$ 247,613	$ 3
Total Transfers In - Component Units	247,610	247,610	247,613	3
Transfers (Out):				
Special Revenue Fund:				
Recreation	(1,409,460)	(1,409,460)	(1,409,460)	-
Urban Districts	(949,090)	(949,090)	(949,090)	-
Mass Transit	(531,310)	(531,310)	(531,310)	-
Revenue Stabilization	(33,793,000)	(19,104,919)	(19,640,592)	(535,673)
Housing Activities	(10,475,420)	(10,475,420)	(10,475,420)	-
Economic Development	(619,520)	(619,520)	(619,520)	-
Total Special Revenue Funds	(47,777,800)	(33,089,719)	(33,625,392)	(535,673)
Enterprise Funds:				
Community Use of Public Facilities	(273,500)	(273,500)	(273,500)	-
Parking Lot Districts	(80,340)	(80,340)	-	80,340
Solid Waste Activities	(1,992,800)	(1,992,800)	(1,992,800)	-
Permitting Services	(1,153,770)	(1,153,770)	(1,153,770)	-
Total Enterprise Funds	(3,500,410)	(3,500,410)	(3,420,070)	80,340
Debt Service Fund	(226,908,900)	(227,049,369)	(220,150,085)	6,899,284
Capital Projects Fund	(35,907,117)	(35,907,117)	(21,567,200)	14,339,917
Total Transfers (Out)	(314,094,227)	(299,546,615)	(278,762,747)	20,783,868
Transfers (Out) - Component Units / Joint Ventures:				
Montgomery County Public Schools - Operating	(1,416,575,854)	(1,416,575,854)	(1,416,575,854)	-
Montgomery County Public Schools - Capital	(8,991,238)	(11,191,238)	(5,988,811)	5,202,427
Total Montgomery County Public Schools	(1,425,567,092)	(1,427,767,092)	(1,422,564,665)	5,202,427
Montgomery Community College - Operating	(99,989,930)	(99,989,930)	(99,989,930)	-
Montgomery Community College - Capital	(5,385,264)	(5,385,264)	(2,519,862)	2,865,402
Total Montgomery Community College	(105,375,194)	(105,375,194)	(102,509,792)	2,865,402
Housing Opportunities Commission - Operating	-	(5,804,040)	(6,293,617)	(489,577)
Housing Opportunities Commission - Capital	(625,000)	(787,659)	-	787,659
Total Housing Opportunity Commission	(625,000)	(6,591,699)	(6,293,617)	298,082
Maryland National Capital Parks & Planning - Op	(785,000)	(785,000)	(785,000)	-
Total Transfers (Out) - Component Units / Joint Ventures	(1,532,352,286)	(1,540,518,985)	(1,532,153,074)	8,365,911
Total Other Financing Sources (Uses)	(1,788,969,353)	(1,774,896,840)	(1,745,747,144)	29,149,696
Excess of Revenues and Other Financing Sources over (under) Expenditures & Other Financing Uses	90,980,886	94,591,025	50,203,554	(44,387,471)
Fund Balance - Beginning of Year	44,606,232	39,657,640	39,657,640	-
Fund Balance - End of Year	$ 135,587,118	$ 134,248,665	$ 89,861,194	$ (44,387,471)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
REVENUE STABILIZATION SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-2

	Budget			**Variance**
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Revenues - Investment income	$ 150,395	$ 150,395	$ 21,955	$ (128,440)
Expenditures:	-	-	-	-
Excess of Revenues over (under) Expenditures	150,395	150,395	21,955	(128,440)
Other Financing Sources (Uses):				
Transfers In (Out):				
From General Fund	33,793,000	19,104,919	19,640,592	535,673
Total Other Financing Sources (Uses)	33,793,000	19,104,919	19,640,592	535,673
Excess of Revenues and other Sources over (under) Expenditures and Other Financing Uses	33,943,395	19,255,314	19,662,547	407,233
Fund Balance - Beginning of Year	74,875,041	74,875,041	74,875,041	-
Fund Balance - End of Year	$ 108,818,436	$ 94,130,355	$ 94,537,588	$ 407,233

Reconciliation of budgetary schedule to GAAP basis Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Total
Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ 19,662,547
Reconciling item - N/A	-
GAAP - Net Change in Fund Balance	$ 19,662,547

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
HOUSING INITIATIVE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-3

	Budget			**Variance**
	Original Budget	**Final Budget**	**Actual**	**Positive (Negative)**
Revenues:				
Taxes - transfer	$ 1,000,000	$ 1,000,000	$ 1,160,533	160,533
Investment Income:				
Pooled investment income	140,000	140,000	2,282	(137,718)
Other interest income	-	-	820,265	820,265
Total Investment Income	140,000	140,000	822,547	682,547
Miscellaneous:				
Property rentals, MPDU and other contributions	1,044,190	1,117,770	409,017	(708,753)
Total Miscellaneous	1,044,190	1,117,770	409,017	(708,753)
Total Revenues	2,184,190	2,257,770	2,392,097	134,327
Expenditures:				
Personnel	1,436,060	1,436,060	1,353,394	82,666
Operating	15,275,519	34,220,593	33,246,690	973,903
Total Expenditures	16,711,579	35,656,653	34,600,084	1,056,569
Excess of Revenues over (under) Expenditures	(14,527,389)	(33,398,883)	(32,207,987)	1,190,896
Other Financing Sources (Uses):				
Transfers In (Out):				
From Capital Projects Fund	-	15,430,595	15,430,595	-
From General Fund	10,475,420	10,475,420	10,475,420	-
To General Fund	(201,500)	(201,500)	(201,500)	-
To Debt Service Fund	(2,500,000)	(2,573,580)	(2,575,702)	(2,122)
Mortgage repayment	1,750,000	1,750,000	8,182,556	6,432,556
Sale of property	2,000,000	2,000,000	1,703,045	(296,955)
Total Other Financing Sources (Uses)	11,523,920	26,880,935	33,014,414	6,133,479
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(3,003,469)	(6,517,948)	806,427	7,324,375
Fund Balance - Beginning of Year	3,003,469	2,090,678	2,090,678	-
Fund Balance - End of Year	$ -	$ (4,427,270)	$ 2,897,105	$ 7,324,375

Reconciliation of budgetary schedule to GAAP basis Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Total
Budgetary - Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	$ 806,427
Reconciling items:	
Elimination of encumbrances outstanding	266,543
Decrease in mortgages receivable	(1,348,563)
GAAP - Net Change in Fund Balance	$ (275,593)

MONTGOMERY COUNTY, MARYLAND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

GRANTS SPECIAL REVENUE FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

RSI-4

	Budget			**Variance**
	Budget Original	**Final Budget**	**Actual**	**Positive (Negative)**
Revenues:				
Intergovernmental:				
Federal grants	$ 73,625,241	$ 98,965,108	$ 60,775,439	$ (38,189,669)
State grants	72,980,802	85,010,757	61,044,765	(23,965,992)
Other non-state and non-federal reimbursements	-	1,525,110	1,992,344	467,234
Total Intergovernmental	146,606,043	185,500,975	123,812,548	(61,688,427)
Investment income:				
Other interest income	-	300,000	288,946	(11,054)
Total Investment Income	-	300,000	288,946	(11,054)
Miscellaneous	1,000,000	1,000,000	687,814	(312,186)
Total Revenues	147,606,043	186,800,975	124,789,308	(62,011,667)
Expenditures:				
General Government:				
Circuit Court:				
Personnel costs	1,224,950	2,502,261	2,070,213	432,048
Operating	316,410	459,767	118,002	341,765
Totals	1,541,360	2,962,028	2,188,215	773,813
Office of State's Attorney:				
Personnel costs	508,820	573,285	396,506	176,779
Operating	-	1,405	1,332	73
Totals	508,820	574,690	397,838	176,852
Office of the County Executive:				
Personnel costs	216,960	475,312	203,484	271,828
Operating	158,149	324,848	98,111	226,737
Totals	375,109	800,160	301,595	498,565
Regional Service Centers:				
Personnel costs	78,050	117,688	112,071	5,617
Operating	26,450	62,772	2,668	60,104
Totals	104,500	180,460	114,739	65,721
Intergovernmental Relations:				
Operating	34,000	34,666	30,664	4,002
Totals	34,000	34,666	30,664	4,002
Commission for Women:				
Personnel costs	-	-	3,494	(3,494)
Operating	-	14,000	10,506	3,494
Totals	-	14,000	14,000	-
Department of Technology Services:				
Operating	-	581,376	6,619	574,757
Totals	-	581,376	6,619	574,757
Total General Government	2,563,789	5,147,380	3,053,670	2,093,710
Public Safety:				
Department of Corrections and Rehabilitation:				
Personnel costs	-	73,111	55,233	17,878
Operating	41,651	440,473	347,430	93,043
Totals	41,651	513,584	402,663	110,921
Department of Fire and Rescue Services:				
Personnel costs	3,477,100	3,997,862	2,551,341	1,446,521
Operating	4,447,986	5,499,279	2,370,960	3,128,319
Totals	7,925,086	9,497,141	4,922,301	4,574,840
Department of Police:				
Personnel costs	1,086,750	1,494,117	682,604	811,513
Operating	7,691,248	9,152,537	8,553,776	598,761
Totals	8,777,998	10,646,654	9,236,380	1,410,274
Office of the County Sheriff:				
Personnel costs	1,389,220	1,557,627	908,386	649,241
Operating	542,325	756,345	240,411	515,934
Totals	1,931,545	2,313,972	1,148,797	1,165,175
Office of Emergency Management & Homeland Security:				
Personnel costs	-	914,290	249,555	664,735
Operating	709,106	7,019,788	4,979,455	2,040,333
Totals	709,106	7,934,078	5,229,010	2,705,068
Total Public Safety	19,385,386	30,905,429	20,939,151	9,966,278
Transportation:				
Department of Transportation:				
Personnel costs	1,754,240	2,079,748	1,702,712	377,036
Operating	6,726,356	6,922,886	3,629,879	3,293,007
Total Transportation	8,480,596	9,002,634	5,332,591	3,670,043
Department of Economic Development:				
Operating	2,625,083	3,799,335	3,463,721	335,614
Total Economic Development	2,625,083	3,799,335	3,463,721	335,614

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONCLUDED
GRANTS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
RSI-4

	Budget			Variance
	Budget Original	Budget Final	Actual	Positive (Negative)
Health and Human Services:				
Department of Health and Human Services:				
Personnel costs	$ 42,742,580	$ 45,955,309	$ 39,971,016	$ 5,984,293
Operating	42,675,586	44,658,065	36,401,098	8,256,967
Total Health and Human Services	85,418,166	90,613,374	76,372,114	14,241,260
Culture and Recreation:				
Department of Libraries:				
Personnel costs	87,290	93,335	85,298	8,037
Operating	12,000	27,753	24,381	3,372
Totals	99,290	121,088	109,679	11,409
Department of Recreation:				
Personnel costs	64,010	140,181	68,954	71,227
Operating	52,300	61,888	28,999	32,889
Totals	116,310	202,069	97,953	104,116
Total Culture and Recreation	215,600	323,157	207,632	115,525
Housing:				
Department of Housing and Community Affairs:				
Personnel costs	4,057,300	4,215,132	2,691,873	1,523,259
Operating	21,094,936	20,638,005	11,511,788	9,126,217
Total Housing	25,152,236	24,853,137	14,203,661	10,649,476
Environment:				
Department of Environmental Protection:				
Personnel costs	162,980	165,706	164,921	785
Operating	3,352,207	2,518,353	1,501,322	1,017,031
Total Environmental Protection	3,515,187	2,684,059	1,666,243	1,017,816
Department of Liquor Control:				
Personnel costs	-	11,980	5,998	5,982
Operating	-	60,490	35,255	25,235
Total Liquor Control	-	72,470	41,253	31,217
Nondepartmental:				
NDA Historical Activities - Operating	250,000	300,000	272,001	27,999
Future Grants - Personnel	-	20,000,000	-	20,000,000
Total Nondepartmental	250,000	20,300,000	272,001	20,027,999
Total Expenditures	147,606,043	187,700,975	125,552,037	62,148,938
Excess of Revenues over (under) Expenditures	-	(900,000)	(762,729)	137,271
Other Financing Sources (Uses):				
Transfers In:				
Mass Transit Special Revenue Fund	-	950,000	832,609	(117,391)
Fire Tax District Special Revenue Fund	-	600,000	562,514	(37,486)
Total Transfers In	-	1,550,000	1,395,123	(154,877)
Transfers Out - General Fund	-	(650,000)	(632,394)	17,606
Total Transfers Out	-	(650,000)	(632,394)	17,606
Total Other Financing Sources (Uses)	-	900,000	762,729	(137,271)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	-	-	-	-
Fund Balance - Beginning of Year	-	-	-	-
Fund Balance - End of Year	$ -	$ -	$ -	$ -

Grants Fund prior year carryover includes: a) re-appropriation of encumbered appropriations, and b) revenues under grants that require more than one fiscal year to complete the grant program.

Reconciliation of Budgetary Schedule to GAAP Basis
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Revenues	Expenditures & Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
As reported - budgetary basis	$ 124,789,308	$ 125,552,037	$ 762,729	$ -
Reconciling items:				
Elimination of encumbrances outstanding	(9,174,191)	(9,174,191)	-	-
Loan expenditures	(2,469,358)	(2,469,358)	-	-
Indirect costs	(708,948)	(708,948)	-	-
Pass-through expenditures	5,773,838	5,773,838	-	-
As reported - GAAP basis	$ 118,210,649	$ 118,973,378	$ 762,729	$ -

REQUIRED SUPPLEMENTARY INFORMATION

RETIREE HEALTH BENEFITS TRUST

The following required supplementary information is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons among employers.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
6/30/2007	$ -	$ 1,176,000,000	$ 1,176,000,000	0 %	$ 602,006,000	195.3 %
6/30/2008	35,279,000	1,161,222,000	1,125,943,000	3.0	667,400,000	168.7
6/30/2010	38,168,000	1,737,436,000	1,699,268,000	2.2	665,746,000	255.2

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability provides one indication of the system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed		Net OPEB Obligation
		Employers	Other Contributing Entities	
2008	$ 102,320,000	38.6 %	4.1 %	$ 58,598,791
2009	111,677,000	51.0	1.2	113,534,939
2010	107,397,000	37.5	2.1	180,712,589
2011	147,582,000	28.7	1.1	287,497,491

MONTGOMERY COUNTY

17 76

MARYLAND

INDEX

I N D E X

(Continued)

I N D E X, Concluded

* POEB = Pension and Other Employee Benefits

MONTGOMERY COUNTY
17 76
MARYLAND

MONTGOMERY COUNTY
17 76
MARYLAND

Prepared by the:
Department of Finance
Division of the Controller
101 Monroe Street
Rockville, Maryland 20850
240-777-8860